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What Most Companies Get Wrong About Managing Talent

They misjudge what really matters to employees.

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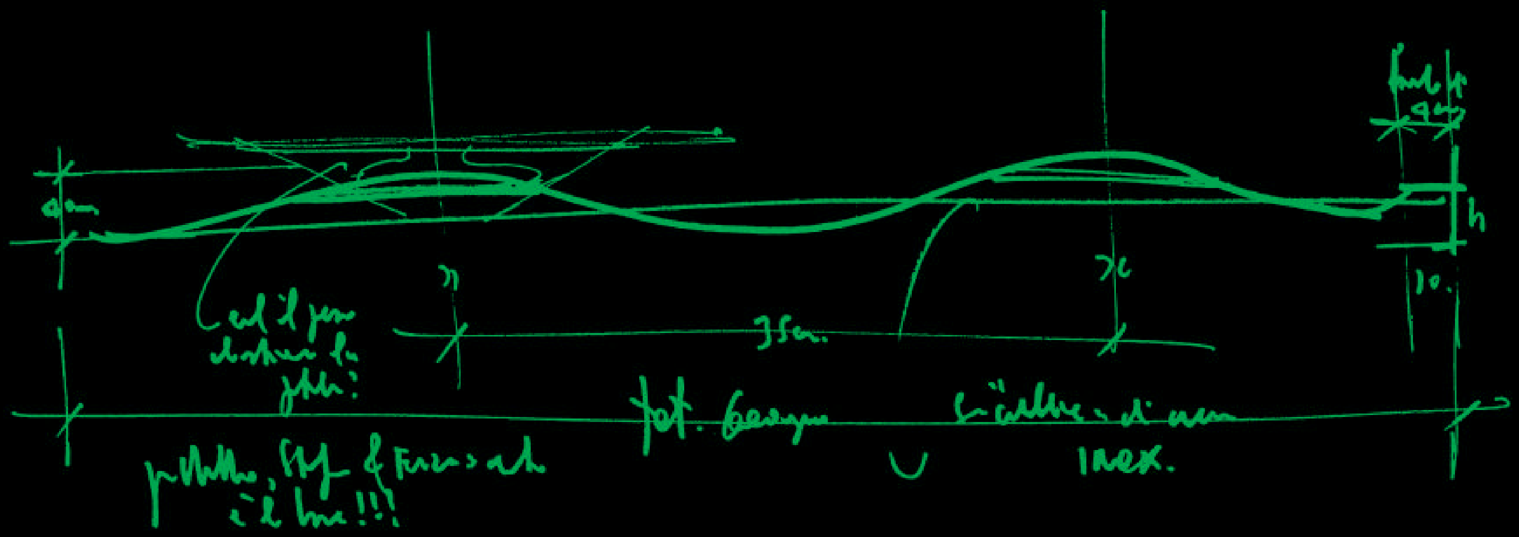
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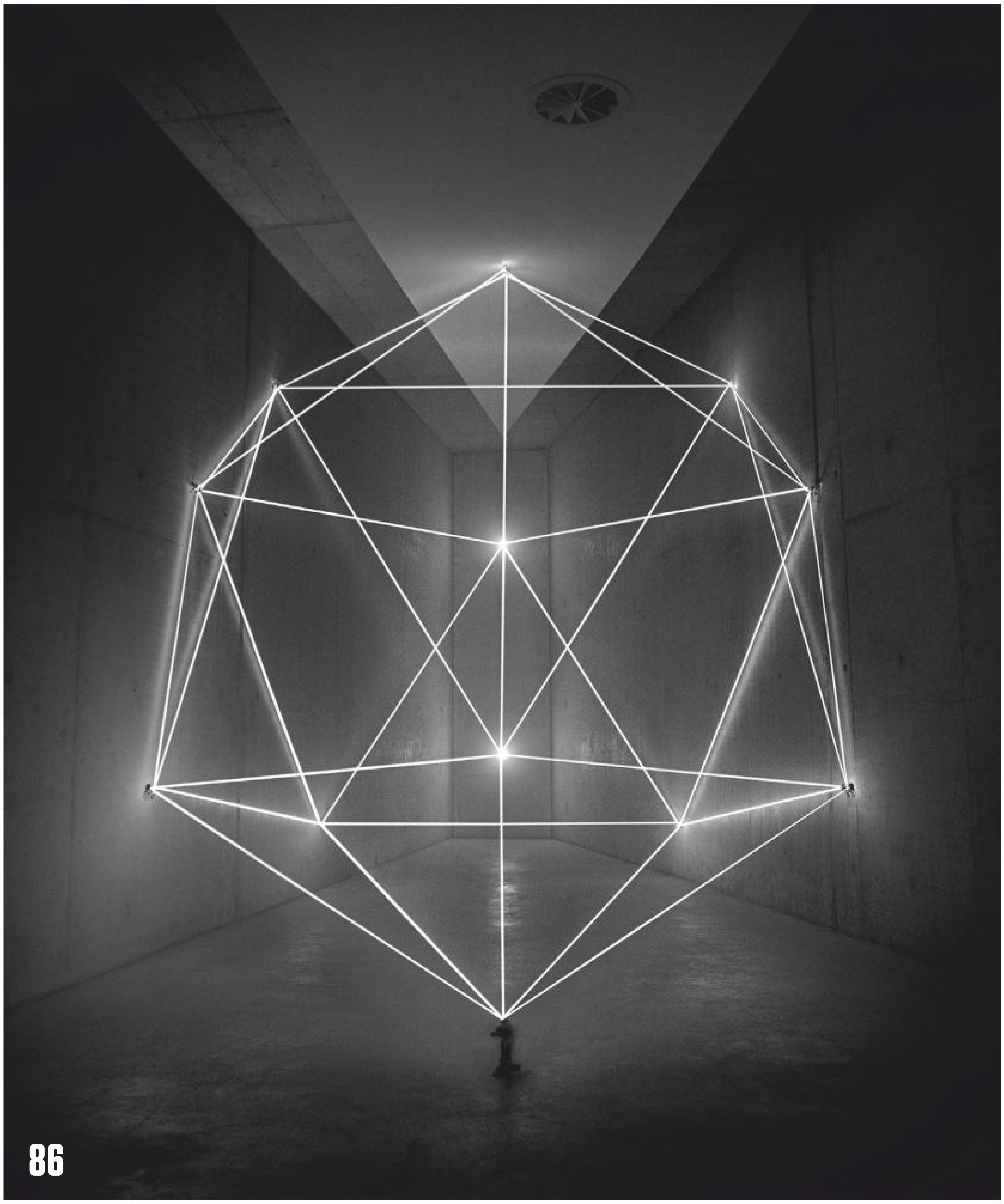

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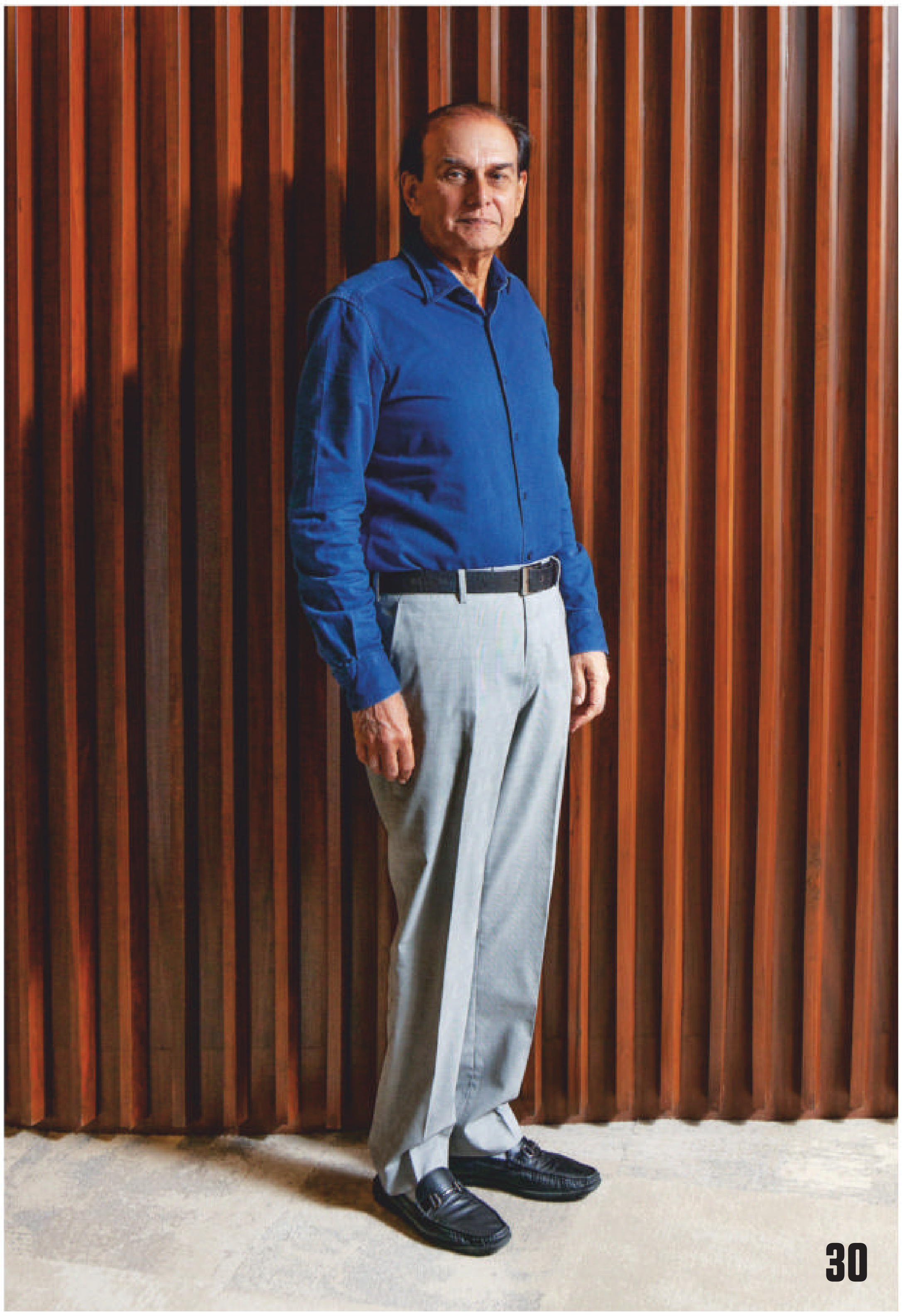
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> –HARSH MARIWALA, CHAIRMAN OF MARICO

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Adi Ignatius

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A Good Job Isn't Just About Flexibility

JUST DOWN THE HALL from my desk sits HBR's ping-pong table. It's a reminder of that era—not long ago, really—when employees clamored for fun office amenities, so companies delivered them.

Today workers are demanding something else: flexibility. Like many organizations, ours is still figuring out what it means to be a hybrid workplace, how best to use our offices, and how to integrate our growing ranks of all-remote employees with those of us who still go into our Boston headquarters. Sometimes the conversations around flexibility can get emotional: People have strong feelings about how, when, and where they do their best work.

In this issue Mark Mortensen and Amy Edmondson caution companies against getting too focused on what employees want right now. "Temptingly simple as this response is, it can be a trap," they write in their article "Rethink Your Employee Value Proposition." "It tends to focus discussions on the material aspects of jobs that are uppermost in employees' and recruits' minds *at the moment*."

Instead, they urge leaders to adopt a longer-term, holistic view of the company's offerings—one in which material aspects (including compensation, benefits, and flexibility) are just one ingredient. Other key elements include opportunities to grow and develop, community and connection, and meaning and purpose—topics we're covering frequently as companies put more energy into understanding how to recruit and retain great people.

As employees continue rethinking what they want from their professional lives, the question of how companies can best meet their needs won't go away. I hope you keep turning to HBR for help figuring out the answer.

ADI IGNATIUS
Editor in chief

Contributors

As an undefeated junior fencer, **Carol Kauffman** would slide into the "zone" of peak performance, but in hindsight she realizes that relying only on pure instinct wasn't always optimal. "It's crucial to have more than one way to win," says Kauffman, now an executive coach. Drawing on years of research and consulting work, she and her colleague David Noble have identified four "stances" that leaders can use to find multiple pathways to success. In writing their HBR Press book, *Real-Time Leadership,* she says, "David and I called on all the stances when we hit writer's block. It's remarkable how many situations the stances can be put to use in."

108 The Power of Options

When **Shantanu Nundy** was an engineering major at MIT, he spent winter breaks teaching at his family's school for impoverished children in rural India. He immediately noticed that many of the children seemed sick. He wondered, "How can anyone learn when they aren't feeling well?" With a grant from MIT, he established a clinic at the school. That experience led him into medicine and ignited a passion to help people living in poverty gain access to health care. In their article in this issue Nundy and his coauthors, Lisa Cooper and Ellen Kelsay, urge businesses to join in this effort and suggest actions they can take.

76 Employers Can Do More to Advance Health Equity

Gabriella Rosen Kellerman trained as a research psychiatrist, but in 2008 she left traditional medicine to build evidence-based products in the emerging digital-health sector. Today she is the chief product officer at BetterUp, a mobile-based platform that provides coaching, counseling, and mentorship. In an article in this issue, adapted from their forthcoming book, *Tomorrowmind,* she and her coauthor, Martin E.P. Seligman, examine the four types of creativity. "It turns out that creativity is part of the answer to the question of what skills we need to thrive in the so-called future of work," she says.

139 Cultivating the Four Kinds of Creativity

After earning a PhD from MIT's Sloan School, **Karthik Ramanna** began teaching financial accounting at Harvard Business School. In the wake of the 2008 financial crisis he concluded that quantitative disciplines have serious blind spots in the guidance they provide decision-makers in times of uncertainty. He developed a leadership course for Harvard's MBA program, which led Oxford University to recruit him in 2016 as director of its master of public policy program. Today he also chairs a senior-executive program on transformational leadership, on which his article in this issue is based.

96 Managing in the Age of Outrage

The Spanish illustrator **Sandra Navarro,** who uses the pseudonym Lalalimola, began her career illustrating children's books before shifting to editorial and advertising work, in which she aims to narrate stories, thrill people, and make them smile. For her illustrations in this issue she mixed drawings and photographs. "I find that's the perfect way to match the material and emotional universes," she says. "As an illustrator and a consumer, I think humor is a useful remedy for surviving in the middle of this cost-of-living crisis."

66 Expand Your Pricing Paradigm

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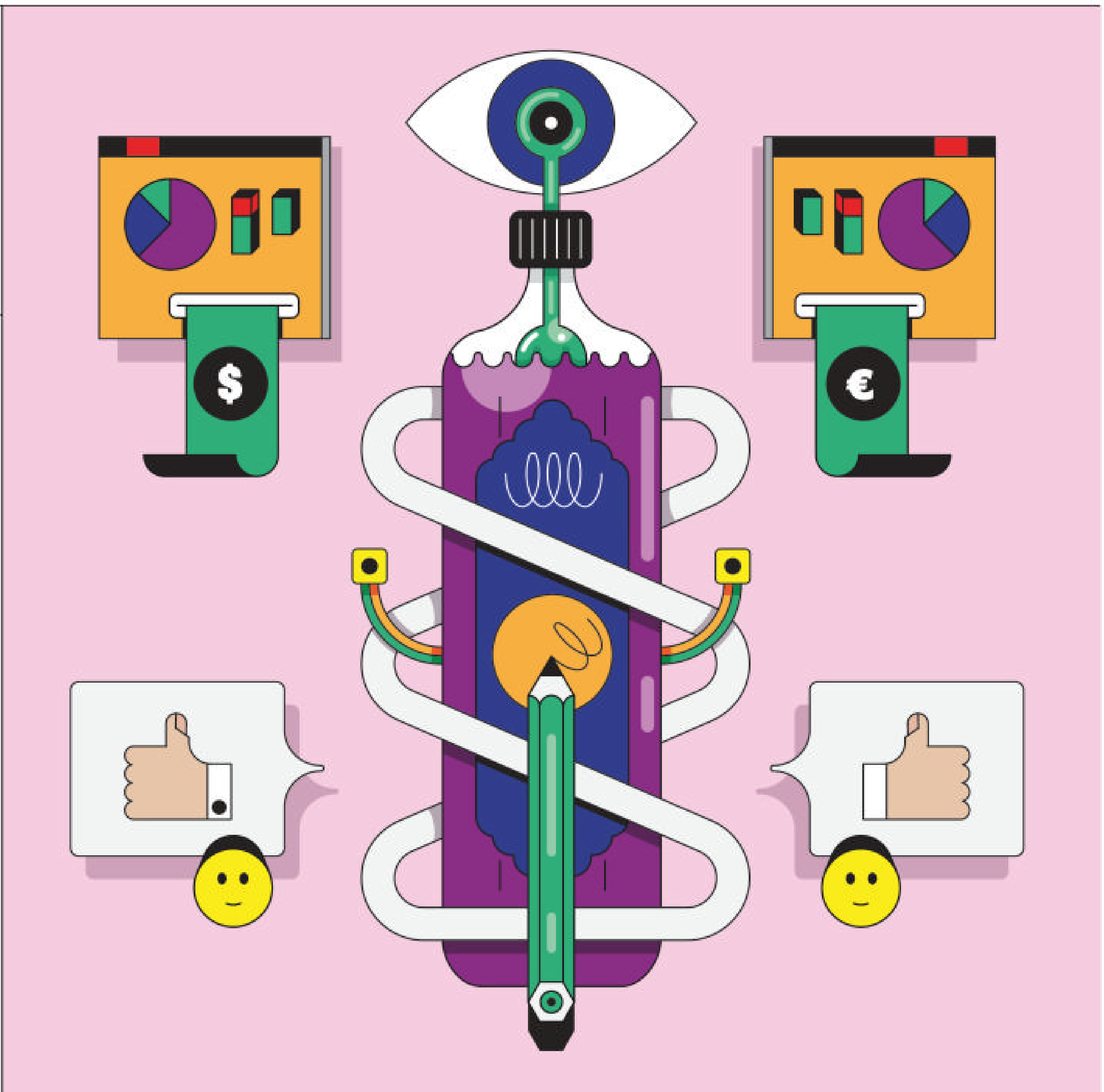
IN THEORY

The Best Way to Name a New Product

Bringing structure and rigor to that all-important decision

When **AN ESTABLISHED** consumer packaged goods (CPG) company introduces a new product, it faces a potentially make-or-break decision: how to brand it. Tying it to an existing brand (as was the case for Cherry Coke and Del Monte Tomato Sauce) is tempting. Customers are more likely to try a new product with a familiar association, and companies have to expend fewer marketing resources to launch it. But the strategy has risks, too: Weak or failed brand extensions can harm the parent brand. When the maker of Coors beer introduced a nonalcoholic beverage, Coors Rocky Mountain Sparkling Water, customers were confused, with some wondering about its alcohol content. Sales of Coors water and Coors beer suffered, and the new product was ultimately discontinued.

Illustrations by **JAMIE CULLEN**



A new study can help companies make the right branding decision—and shows that those who do will be rewarded with higher returns. "A strong existing brand is a strategic resource for managers wishing to introduce a new product," says Boston College's Larisa Kovalenko, one of the authors of the study. "But they must be careful not to kill the golden goose."

The researchers examined nearly 20,000 products introduced by U.S. CPG firms from 2000 to 2012. They determined which of three branding strategies had been used: *new brand* (an entirely original name, as when Coca-Cola launched Dasani bottled water), *direct extension* (an existing brand name plus a descriptive word or phrase: Tide Washing Machine Cleaner), or *sub-brand* (an existing brand name plus a nondictionary or nonspecific word or phrase: Olay ProX, Arm & Hammer Complete Care). By analyzing the new products' performance and their companies' financial returns, the researchers identified five product and firm characteristics that guided the most successful branding choices.

Fit with the company's other offerings. When a new product doesn't tie in naturally to an existing brand portfolio, customers may become confused or put off if that product uses a familiar brand name, as happened with Coors Rocky Mountain Sparkling Water and another short-lived beverage, Frito-Lay Lemonade. In cases of an obvious mismatch, managers would be better off creating wholly new brands. That's why the Coca-Cola Company introduced its noncarbonated sports beverage as Powerade.

Innovativeness of the new product. Innovation is inherently risky, and so companies bringing out a truly novel product generally should use a new brand to avoid imperiling their existing one should things not pan out. Unilever introduced Persil Power—a detergent with a special cleaning formula—in Britain in the 1990s, positioning it as a sub-brand of its popular Persil detergent. However, customers using hot water in their machines discovered that their clothes were falling apart after being washed with the new detergent—something Unilever hadn't foreseen because it had done most of its testing at cooler water temperatures. The firm recalled the product and abandoned it, but not before damaging the reputation of its flagship detergent.

Conversely, when an innovative product has an entirely new name and enjoys commercial success, it becomes an asset that can be leveraged with appropriate brand extensions down the road.

The breadth of the existing portfolio. When a company owns many active brands, odds are it can find a good fit for a new product and so should favor a direct-extension brand name. "If you are Procter & Gamble, you will find it much easier to tie a new product to an existing brand than a company with only a few options to choose from," Kovalenko says.

The risk of brand dilution. Some companies introduce so many products under one brand that the brand loses its magic. Consider how the luxury brand Pierre Cardin overextended itself. After successfully moving beyond fashion into perfumes and cosmetics, it started losing margins, revenue, and brand equity when it extended into numerous unrelated categories, introducing, for

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Elodie Dupuy, Founder and Managing Director (left); Tina Philip, CFO (right)

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example, Pierre Cardin baseball caps and cigarettes. The researchers also point to Virgin Group, which has been criticized for unclear brand positioning and a lack of focus owing to its several dozen sub-brands in categories including record labels, cruise lines, retail banks, telecommunications, and airlines.

Amount of advertising funds. Firms lacking the resources to provide strong advertising support should avoid the capital-intensive task of building a brand with an entirely new name. Well-resourced firms can be bolder, as they stand a better chance of getting a new-to-the-world brand name off the ground.

Analyzing the brands in their study, the researchers calculated that companies that followed the guidance of the five principles when branding a new product saw, on average, a 0.18% increase in stock market value in the five days around the product launch—which for large firms translates to as much as $26 million in shareholder value. Firms whose new products deviated from the guidance saw no increase around launch. Tracking Tobin's q—a measure of long-term performance that compares the market value of a firm to the replacement value of its assets—the researchers found that firms that followed the guidance did better in that regard as well. "While the branding of an individual new product could be seen as a minor corporate action, our research demonstrates that...these decisions significantly impact the stock market value of firms," the researchers write.

None of this is an exact science, Kovalenko cautions. For instance, managers must use their judgment to determine whether a product is a good fit with their firm's existing brands and what constitutes a "sufficient" advertising budget. And branding decisions involve balancing sometimes competing factors. When PepsiCo developed a protein-rich energy drink, in 2006, the product was in theory a nice fit for several existing brands (such as Gatorade), suggesting that a brand extension or a sub-brand would be a good choice. But managers went with a new name, Fuelosophy, presumably because they felt the product was innovative and could be supported by their formidable advertising war chest. The beverage ultimately failed to take off, demonstrating one reason to give a highly novel product a name unrelated to core brands.

The study's findings obviously don't apply to firms that use a single brand, such as Sony and Patagonia. They're also not relevant to private-label brands, which have unique dynamics. And the researchers discovered that market leaders appear to have more leeway to make suboptimal branding decisions without imperiling the parent brand. But that leaves 90% of the world's CPG companies—and for them, the research promises to bring structure and rigor to a highly consequential choice.

HBR Reprint F2301A

ABOUT THE RESEARCH *"What Brand Do I Use for My New Product? The Impact of New Product Branding Decisions on Firm Value," by Larisa Kovalenko, Alina Sorescu, and Mark B. Houston* (Journal of the Academy of Marketing Science, *2022)*

IN PRACTICE

"Look for Opportunities to Stimulate People's Imaginations"

***David Placek** founded the brand-development firm Lexicon in 1982. In the 40 years since, he has helped companies come up with dozens of category-defining names, including Dasani, Pentium, Swiffer, and BlackBerry. Placek recently spoke with HBR about what companies should consider when naming a new product. Edited excerpts of the conversation follow.*

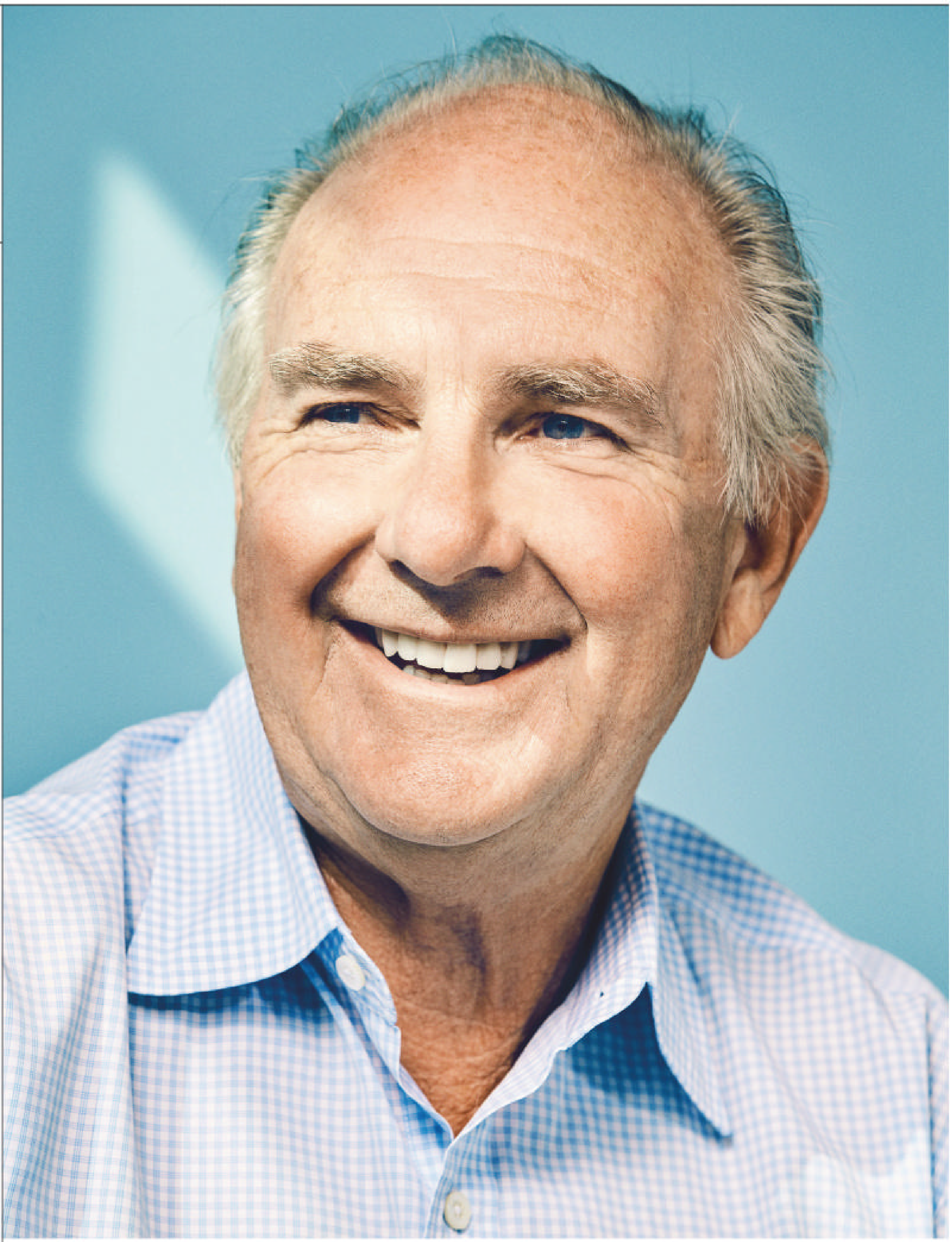
How do you approach branding with large companies?
You have to consider "branding architecture," or the way that multiple brands in a portfolio interact. When you have a new product, should it be positioned as an extension of an existing brand or as an entirely new one? The research by Larisa Kovalenko and her colleagues looks at various factors that should influence the decision, such as how innovative the product is and how well it might fit under an existing brand, but I think there are others, too.

Such as?
One of the most important is managerial resources and

commitment to the project. The research talks about the size of a firm's ad budget, and advertising is certainly needed to build awareness for a new brand. But the talent and resources on the internal marketing team are equally important. Do I trust my people to introduce a new brand? Can we afford to hire the best advertising and design firms to support us?

How does the competitive landscape influence your approach? You need to consider whether you're dealing with a dominant incumbent. When we worked with Microsoft on naming its cloud offerings, the seemingly low-risk solution was Microsoft Cloud Services. But the firm was taking on Amazon Web Services, popularly known as AWS. If Microsoft Cloud Services became known as MCS, where would the differentiation be? So we came up with Azure, and it took off. AWS had a much harder time painting Azure as an imitator than it would have had portraying MCS as one.

What about customers? What factors do you consider there? The decision is often influenced by psychological and behavioral factors, which are important but can be very hard to quantify. Think about the stroke of genius behind Hello toothpaste. The category leaders, Crest and Colgate, presented their products in clinical, scientific terms. Craig Dubitsky, the founder of Hello, recognized that consumers would react well to a friendly line of oral care. If you want to demonstrate friendliness, what's the first thing you say to a customer? "Hello!"

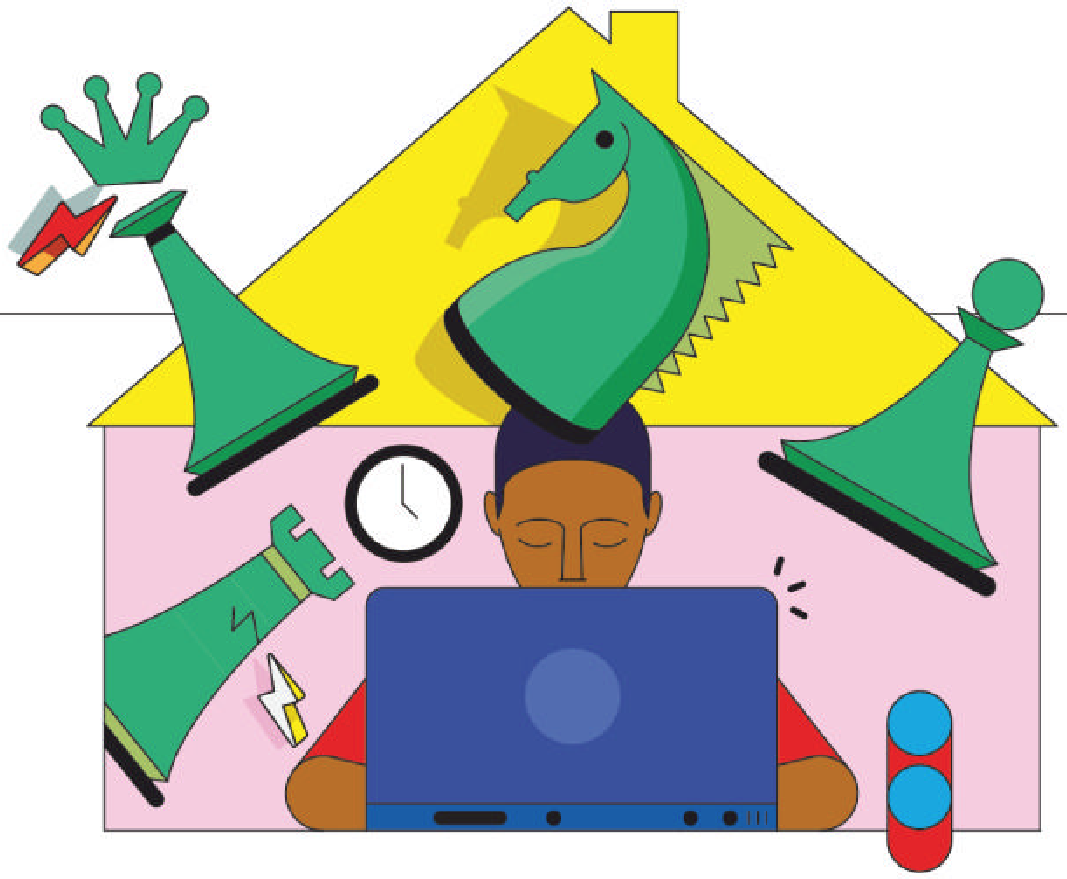


Your firm is known for innovative names like Azure and Dasani. Do you ever recommend more-prosaic ones? Of course! We look first at whether a product is one-dimensional: Does it do only one thing really well? In that case, it can be best just to say so. The research cites Tide Washing Machine Cleaner, which is a good example. That's a way better name than something abstract, like Tide Alpha.

There are exceptions, though. Sometimes a product does its one thing so much better than anything else on the market that you have to differentiate it. I remember when scientists from Procter & Gamble demonstrated a new spray for me. They used it on a really stinky trash can, and the smell disappeared. I knew immediately that this was something truly special. In such cases, you have to look for opportunities to stimulate people's imaginations. So we came up with the name Febreze, which has become a major source of brand equity for P&G. I'm glad they didn't call it P&G Deodorizer or Smell-Away or some such. ⊜

Photograph by **CODY PICKENS**

IdeaWatch



REMOTE WORK

Do We Make More Mistakes When Working from Home?

When the Covid-19 pandemic forced many workers to go remote, managers fretted about possible declines in productivity. More than two years later, studies suggest that their fears were largely unfounded. But what about remote workers' cognitive performance? To investigate, a research team turned to an unusual empirical setting: professional chess.

The researchers analyzed a set of online tournaments organized during the pandemic by the reigning world champion, Magnus Carlsen, which were structured to mirror traditional offline contests. Because most participants had competed in at least one recent World Chess Federation tournament, the researchers were able to compare individuals' online and in-person performances, using the AI in a leading chess engine to assess more than 200,000 moves and associated errors. They found that the quality of play was 7.5% lower, on average, when participants competed online. Although the researchers couldn't determine why that happened, they say that the absence of peers probably contributed.

"Cognitive tasks are important in many modern professional, managerial, technical, and creative occupations," the researchers note, and so performance in other remote settings might likewise take a hit. However, the decline in chess players' performance was steepest in the first two tournaments of the series—suggesting that people adapt over time.

ABOUT THE RESEARCH *"Cognitive Performance in Remote Work: Evidence from Professional Chess," by Steffen Künn, Christian Seel, and Dainis Zegners (*The Economic Journal*, 2022)*

GENDER

How Women in the C-Suite Boost Financial Performance

Women now account for roughly one in four executives (though very few CEOs) in the S&P 500. What does that mean for their firms' financial performance? A new study finds that female executives focus on customer relationships more than their male counterparts do—and that bolsters long-term business results.

The researchers studied 389 publicly traded *Fortune* 500 firms from 2007 to 2015. To measure female influence on the top management team, they considered four factors: the share of positions on the team that were held by women, the rank of the highest female member, the ranks of all female members, and the number of responsibilities on their dockets. The researchers calculated the share of customer-oriented words in each firm's annual reports and used Tobin's q (the market value of a firm divided by the replacement value of its assets) to assess long-term financial performance. The greater the female influence, the higher the firm's customer orientation and Tobin's q.

Women generally operate from a so-called interdependent self-construal, the researchers explain: They are more likely than men to see things in terms of relationships and to consider the perspectives of others. So when in positions of influence in the C-suite, they often promote strategic decisions that reflect a higher focus on customers—which previous research has linked to higher Tobin's qs.

The results varied according to several characteristics of the firm and the management team. The effect of female influence was stronger when the C-suite had a high degree of control over strategy—for instance, when it was relatively unburdened by regulations. It was also stronger when the board had

THE TOGGLING TAX

Employees at three *Fortune* 500 companies toggled among apps and websites nearly 1,200 times a day, on average. They spent just under four hours a week—the equivalent of five working weeks annually—reorienting themselves after each switch. "How Much Time and Energy Do We Waste Toggling Between Applications?" by Rohan Narayana Murty, Sandeep Dadlani, and Rajath B. Das

robust female representation or had directors with marketing experience. It was weaker when firms were contending with unpredictable customer preferences, lots of technological change, or strong competition, or when they had a high degree of family ownership.

Overall, the findings challenge prior thinking, the researchers say. "Many studies…suggest that female executives engage in reduced risk-taking, but customer orientation may actually result in female executives pursuing riskier strategies," they write, noting that under Mary Barra's leadership, GM surprised many observers by abandoning several models of sedans in favor of increasingly popular SUVs, thus fundamentally changing the firm's strategic direction.

ABOUT THE RESEARCH *"Customer Orientation and Financial Performance: Women in Top Management Teams Matter!" by Chandra Srivastava, Saim Kashmiri, and Vijay Mahajan* (Journal of Marketing, *forthcoming)*

ARTIFICIAL INTELLIGENCE

Let a Robot Be the "Bad Cop"

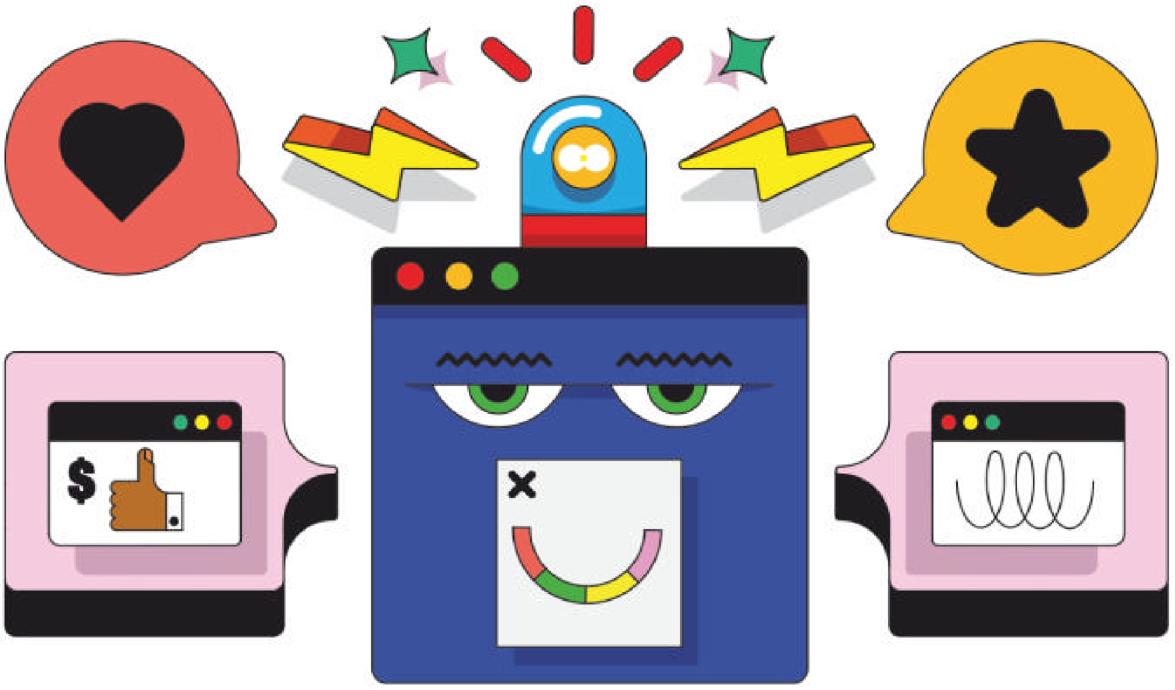
Research has shown that consumers often would rather interact with human agents than with automated ones. But a new study paints a more nuanced picture: When communicating a disappointing offer, a bot gets better results.

In one experiment, participants imagined that they were thinking of buying a concert ticket from an online resale agency. Some were told that a similar ticket had been sold to another customer for the same price; the others were told that another customer had gotten a better deal. Half the participants in each group interacted with a human ticket agent, while the other half interacted with a bot. Among those offered the similarly priced ticket, the type of agent made no difference to acceptance rates. But among participants offered the higher-priced ticket, just 19% of those interacting with a person wanted to buy it, while 49% of those interacting with a bot did. When the other customer was said to have paid a higher price, the opposite happened: The human agent elicited greater willingness to purchase (89%) than the bot did (76%).

Subsequent studies explored why that pattern occurred. People inferred that the bots were both less selfish than their human counterparts (when offers were disappointing) and less benevolent (when offers were better than expected), and that influenced their willingness to accept the offers. Those effects were attenuated, however, when the bot was anthropomorphized.

"Our results reveal that an AI 'bad cop'/human 'good cop' approach to managing discrepant expectations should have beneficial effects" when communicating with consumers about unforeseen delays or expedited deliveries, stockouts or upgrades, and so on, the researchers write. They add a caveat: Although customers often hold unrealistic expectations about a product or service and would be well served by inducements to accept it, "in those instances where the worse-than-expected offer is objectively detrimental to consumers, the use of this approach…raise[s] ethical concerns."

ABOUT THE RESEARCH *"Bad News? Send an AI. Good News? Send a Human," by Aaron M. Garvey, TaeWoo Kim, and Adam Duhachek* (Journal of Marketing, *2022)*



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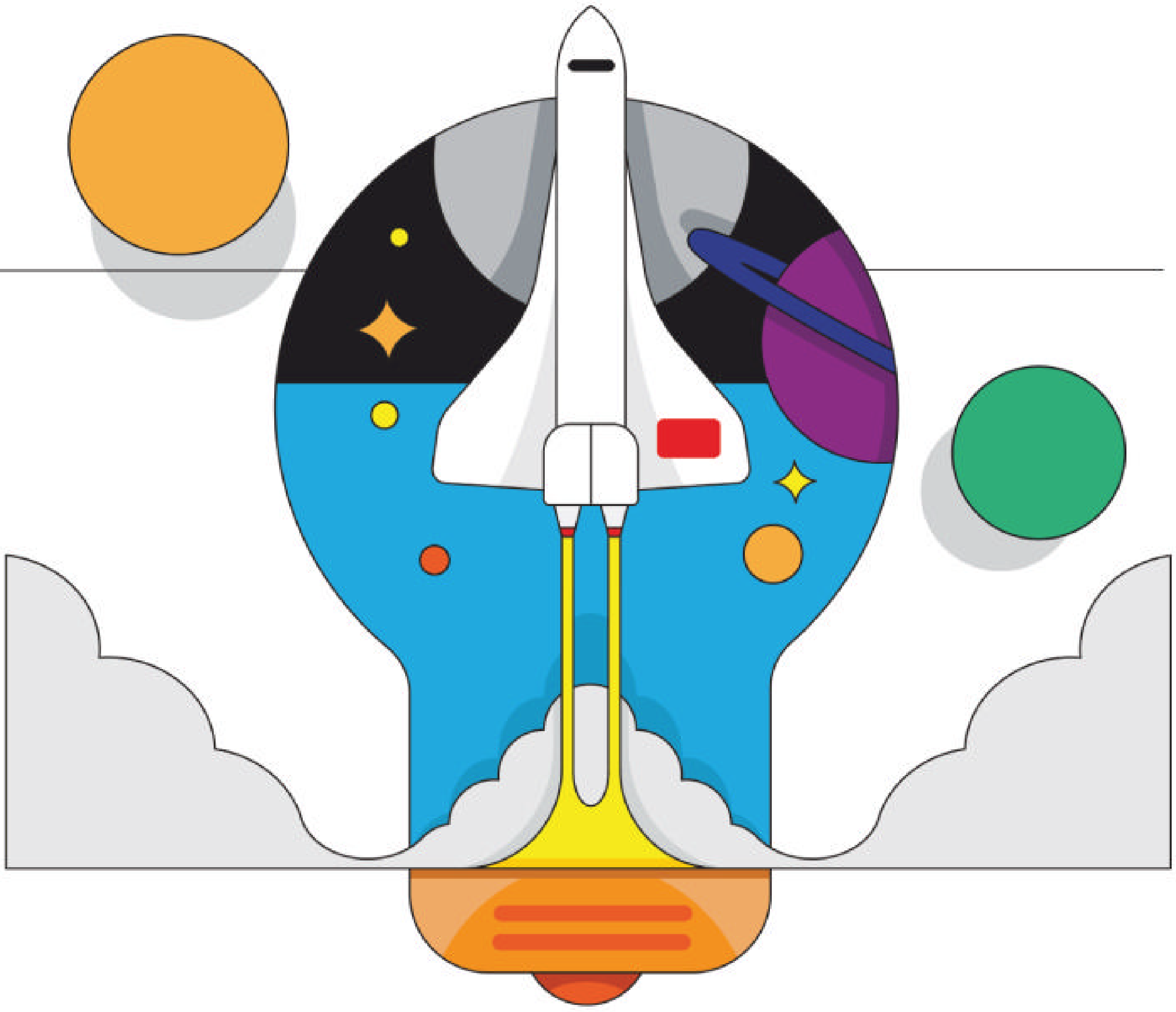


INNOVATION

Why You May Be Overlooking Moon Shots

When deciding which R&D projects to pursue, leaders often rely on highly expert advice. New research finds that this approach favors easy-to-implement choices over breakthrough ideas.

Participants were asked to evaluate 10 entries in a NASA robotics contest on novelty, feasibility, and quality. Some evaluators were deemed experts after taking a skills test, some had work-related expertise, and some were unscreened. The experts gave 30% more weight to feasibility when assigning quality scores than the other evaluators did. Judging feasibility draws directly on prior knowledge, the researchers explain, but experience is less relevant when assessing novel ideas—and experts' mental maps often break down in the face of new terrain. Textual analysis of the comments showed that indeed, the experts paid more attention to feasibility than the others did.

"High expertise is likely to lead to selection criteria that filter out novel ideas even before they can be considered," the researchers write. They suggest that managers broaden their evaluator pools to include people with varying depths of knowledge about the field in question.

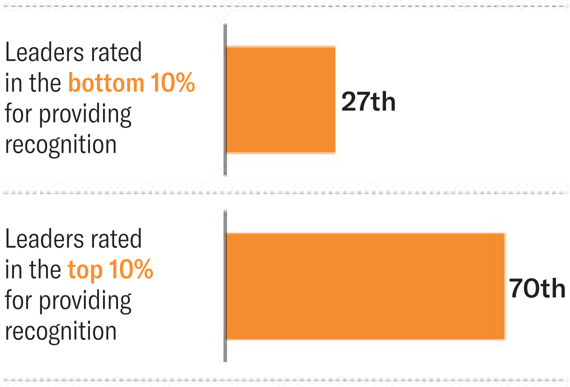
ABOUT THE RESEARCH *"Are Experts Blinded by Feasibility? Experimental Evidence from a NASA Robotics Challenge," by Jacqueline N. Lane et al. (working paper)*

MANAGING PEOPLE

Recognition Is Key to Engagement

Letting employees know their work is appreciated is a critical leadership skill—and yet too few managers practice it successfully. An analysis of tens of thousands of 360-degree reviews globally found a yawning gap between the engagement of employees whose leaders excelled at voicing recognition and those whose leaders failed to do so often or well.

Average engagement of employees by percentile



Source: "Do You Tell Your Employees You Appreciate Them?" by Jack Zenger and Joseph Folkman (HBR.org, 2022)

BIAS

Social Media Posts Can Hurt Veterans' Job Prospects

Military veterans transitioning to civilian life are often advised to seek support on social media platforms, and they find valuable resources there. But new research suggests that if they deliberately or unintentionally reveal that they have experienced PTSD, they lower their odds of landing a job.

The researchers began by searching 450 U.S. veterans' Facebook profiles for indications of PTSD (whether direct mentions or merely suggestive ones, such as comments about stress or self-critical thoughts) and surveying another 105 vets about their social media behaviors. This showed that some 34% of them had posted about PTSD or its symptoms. Next the researchers asked 290 undergraduate

MOVE FAST AND BREAK MARRIAGES?

In a 21-year Danish study, employees of small, young firms were 15% more likely to get divorced than employees of large, established firms, presumably because of the stresses of their jobs. Couples in which both people worked for start-ups (and so probably understood each other's situations) fared better.
"Creative Destruction? Startups and Divorce," by Tünde Cserpes, Michael S. Dahl, and Olav Sorenson

business majors to imagine that they were evaluating a male veteran who had applied to join their work group. Participants were given a description of the tasks, the candidate's résumé, and his social media profile and were asked to report their impressions. The job description and résumé were held constant, but the profile varied according to platform (Facebook or LinkedIn), indications of PTSD ("liking" a PTSD-related organization, for example), and the inclusion of "individuating information" portraying the applicant in a positive light—as the winner of a programming contest, for instance. The researchers found that stereotypes about PTSD aroused concerns about the applicant and overshadowed positive, job-related information. Participants whose candidate showed signs of PTSD were more likely than those whose candidate showed no signs to believe that he would be stigmatized if hired. They were more suspicious of him themselves and more likely to think he would perform poorly on tasks. They also thought that he would exhibit less "organizational citizenship behavior" and more counterproductive behavior, and they were less interested in setting up an interview with him. The choice of platform did not affect results, while the inclusion of individuating information boosted expectations about performance but did not mitigate concerns about negative behaviors.

Two subsequent studies in which working professionals assessed the candidate found generally similar results, and one of them showed that participants evaluating the veteran with PTSD were more likely than others to perceive a risk of physical peril were he to be hired.

"Veterans...may want to limit access to posts to known audiences or find support in private, password protected, anonymized forums," the researchers write, while "organizations might dissuade hiring managers or recruiters from looking at social media platforms... or, at the very least, provide training programs for hiring personnel on how to systematically conduct social media assessments."

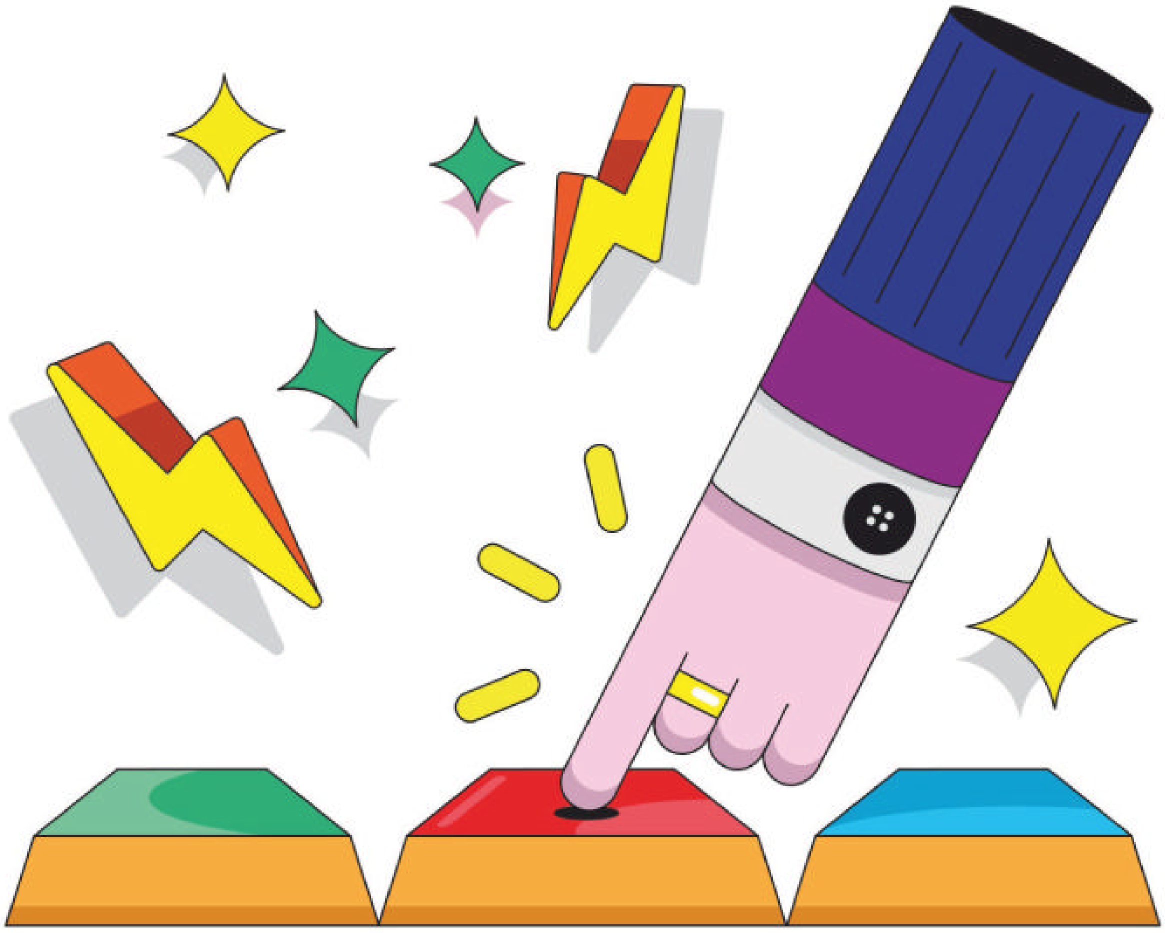
ABOUT THE RESEARCH *"Post-Traumatic Stress Disorder and Hiring: The Role of Social Media Disclosures on Stigma and Hiring Assessments of Veterans," by Wenxi Pu et al.* (Personnel Psychology, *2022)*

POLARIZING DISCUSSIONS

You're Better Off Wading into the Fray

When a hot-button political or moral issue arises, it's tempting to stay out of it for fear of offending the other party. But new research shows that attempted neutrality can be even more damaging.

In one experiment, participants read about a political candidate who was asked whether NFL players should be required to stand during the national anthem. The researchers divided participants into two groups according to whether they were liberal or conservative. In the account read by some in each group, the candidate opposed the group's prevailing position. In the



account read by the others, he declined to take a stand. Participants in both political groups were more likely to trust him when he sided against them than when he was neutral and were no less likely to consider voting for him. In another experiment, participants who were asked to choose a partner for a game were far more likely to opt for someone who opposed their views on gun control outright than for someone who ducked the issue. “When actors choose not to take sides,” the researchers write, “observers often ascribe concealed opposition…which provokes distrust and undermines real-stakes cooperation.” That effect occurred, however, only when silence seemed to be a strategic choice, not when people appeared to truly hold a middle-of-the-road position or to lack incentives to manage how they were viewed.

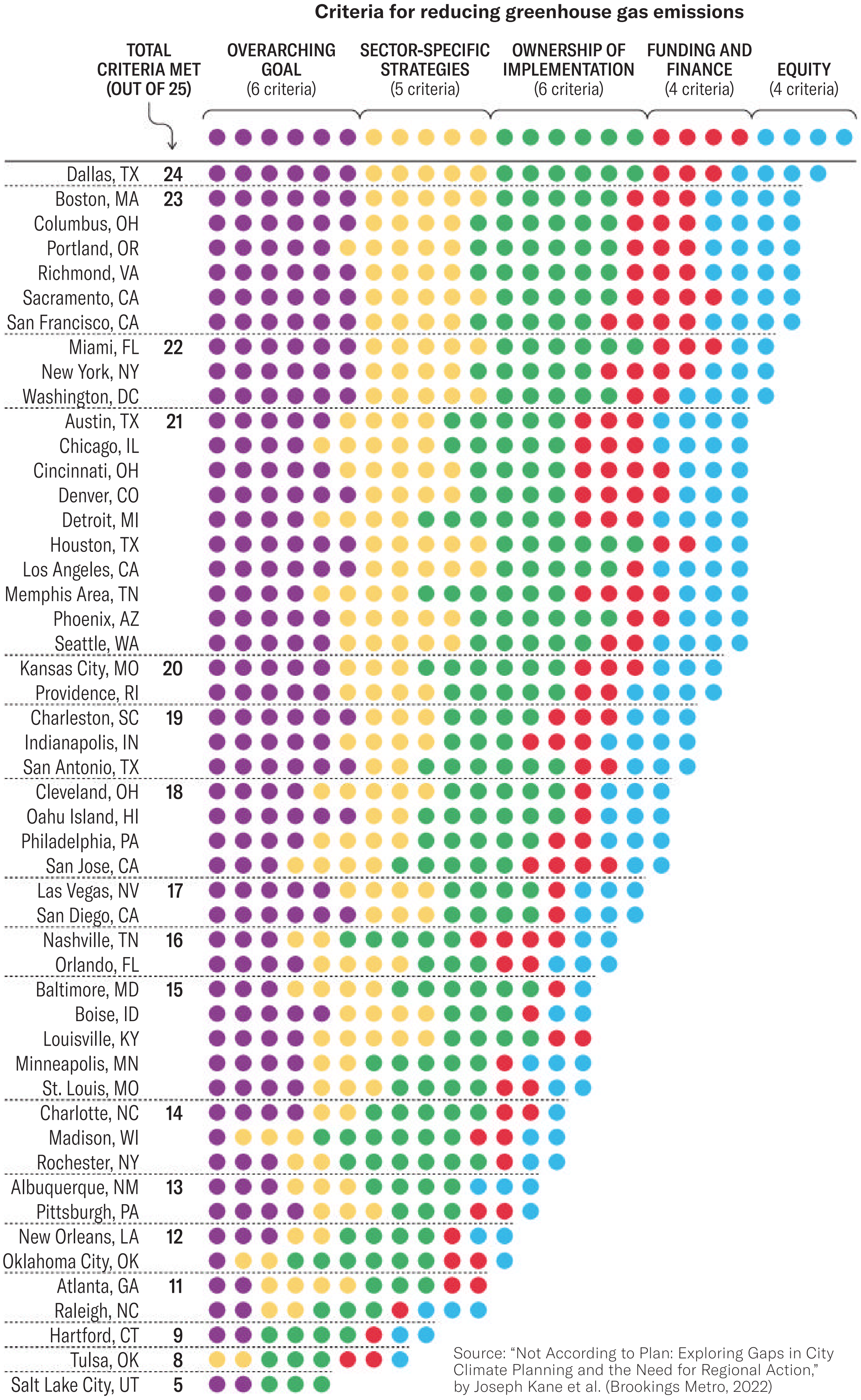
A follow-up study showed that most people misunderstand the costs of withholding their opinions. When presented with a workplace scenario in which trust building is important and a sensitive issue arises on which they disagree with their colleagues, 63% of participants said, “I prefer to keep my political opinions to myself,” “I just do not like to talk politics,” and so on. “In other words,” the researchers write, “participants put on the spot to take sides often generated just the sorts of not-taking-sides responses we have previously demonstrated backfire.”

ABOUT THE RESEARCH *“When and Why ‘Staying Out of It’ Backfires in Moral and Political Disagreements,” by Ike Silver and Alex Shaw* (Journal of Experimental Psychology: General, *2022)*

CLIMATE PLANNING

Which Cities Have Achievable Targets?

Many U.S. cities have plans for decarbonization, but too few include the details needed for implementation. For example, among 50 major U.S. cities, only 28% have detailed sector-specific strategies for electricity, buildings, and transportation. Here’s how all 50 cities stack up. Each circle represents a criterion for which cities have specified benchmarks and reporting.



Source: “Not According to Plan: Exploring Gaps in City Climate Planning and the Need for Regional Action,” by Joseph Kane et al. (Brookings Metro, 2022)

The Winning Strategy Is Simplicity

Productivity, sustainability, innovation, collaboration, security—the promise of digital transformation to deliver game-changing results is driving today's growth strategies.

But as businesses adopt such technologies as multi-cloud, edge computing, and internet of things (IoT), the complexity of information technology (IT) may be standing in the way of success. An overwhelming 82% of respondents to a recent survey of large enterprises said IT complexity impedes their success—and 46% said reducing that complexity drives innovation.

As leading organizations in such sectors as finance, energy, and technology adopt advanced tools, some identify IT simplicity as key to strengthening operations, increasing productivity, accelerating innovation, improving customer experience, and fortifying cybersecurity.

POWERING FINANCIAL INCLUSION

iOCO, a South African banking-as-a-service (BaaS) provider, helps large banks advance financial inclusion to offer greater banking, loan, equity, and insurance equity to the underserved populations of this economically diverse nation. To do so, iOCO needed a mainframe powerful enough to open, manage, and scale to meet its partners' needs.

Using an amplified and simplified mainframe has let iOCO offer more robust BaaS infrastructure that helps its partner banks reach new markets faster—and at 25% of the cost a bank might spend on capital expenses for the infrastructure iOCO provides.

STRENGTHENING SECURITY

SGN distributes gas to 5.9 million residential and commercial customers in the U.K. The utility sets its top priorities as customer satisfaction and safety. But the IT complexity of connected applications, cloud services, and IoT sensors and other tools and infrastructure creates countless points of vulnerability, which contributes to wariness in the energy sector of moving operations to the cloud.

When SGN migrated its entire network to a multi-cloud environment, its top goals included increasing agility, cutting costs, fostering innovation—and above all else, strengthening cybersecurity.

Adopting an integrated security ecosystem let SGN establish a central data network and access the world's largest civilian threat intelligence database so it can spot more threats more clearly and respond in real time. The simplicity of SGN's multi-cloud network improves collaboration among its remote workforce and boosts customer trust.

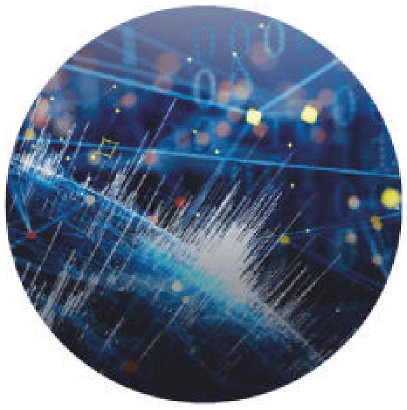
MAKING COMPLEXITY MAKE SENSE

Japan-based managed service provider Fujitsu oversees large, complex environments for enterprise customers in Central Europe that incorporate a range of network infrastructures and technologies. To optimize its performance for customer data centers in Germany, Fujitsu needed to simplify complex environments and provide tools for efficiency.

One concern was monitoring and alerting systems that generated too much false-alarm "noise." Fujitsu implemented a single-pane operational dashboard to help its customers and internal staff monitor inventory, performance, and real-time network health. By enhancing its network operations (NetOps), Fujitsu can help customers more quickly detect abnormal patterns indicating potential trouble and improve the speed of resolution.

Whether using mainframes to strengthen ideation, boosting signal over noise with NetOps, or implementing an integrated cybersecurity ecosystem, these improvements all depend on simplifying IT complexity.

Broadcom's technology and expertise can help your organization cut IT complexity and simplify to help meet and exceed your goals.



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Savva Shanaev of Northumbria University and two colleagues mapped a century's worth of U.S. stock-market returns against the annual predictions of Punxsutawney Phil, the star of the long-standing North American custom of Groundhog Day. According to the tradition, if the Pennsylvanian groundhog sees his shadow on February 2, winter will last for six more weeks. If he doesn't, spring is around the corner—and, the researchers found, the market gets a boost. **The conclusion:**

When the Groundhog Predicts an Early Spring, Investors Get Optimistic

Mr. Shanaev, DEFEND YOUR RESEARCH

SHANAEV: Generally speaking, the market is much more rational than you might think. It's incredibly efficient when it comes to accurately condensing information about value. But sometimes it can be glaringly irrational.

HBR: So Groundhog Day isn't the only anomaly? Not at all. Researchers have also documented the "sell in May and go away" effect, which reflects the fact that the market tends to be at its worst from May through October. Then there's the January effect, so-called because stocks often rise at the start of the year, and the Monday effect, in which market returns are lower than average at the beginning of the week. Some studies have also found that stocks perform poorly around the full moon and when Mercury is in retrograde.

Many of these effects are fairly consistent around the world, but other calendar- or superstition-based market anomalies are more localized. In China, for example, returns increase during Chinese New Year, and stocks whose ticker symbols include the lucky number eight tend to perform better than average, while those whose symbols include the unlucky number four perform worse. Israeli market returns are higher on Rosh Hashanah, a cheerful Jewish holiday, and lower on Yom Kippur, a somber one. And many Islamic countries' markets exhibit abnormally positive returns during the celebratory month of Ramadan.

How much do Phil's predictions affect the market's performance? Overall, I found no statistically significant changes after a long-winter prediction, but the market appreciates by 2.78% after an early-spring prediction. This is most likely because early-spring predictions are much rarer, occurring only once every four years, on average, so investors react more strongly to them.

Why would they be influenced by information that has nothing to do with companies' actual value? Some investors are genuinely superstitious, if only on a subconscious level. Others may not be but are swayed by the shift in public sentiment that often accompanies cultural events like this one. Still others may be crafting investment strategies according to how they think superstitious investors will react. In fact, the groundhog's impact on the stock market starts to become evident two weeks before his February 2 predictions—suggesting that the latter explanation is at least partly in play.

How does that work? Phil generally doesn't see his shadow if there's heavy cloud cover in Punxsutawney on

Illustration by **JOEL KIMMEL**

February 2, and reasonably reliable weather forecasts are available up to two weeks in advance. Now if the Groundhog Day stock-market effect were driven purely by superstition or sentiment, you would expect to see it only after the prediction had been made. Because we start to see abnormal market activity two weeks before then, I suspect that some investors are tracking Pennsylvania forecasts and adjusting their market positions accordingly.

Specifically, if they see a cloudy day in the forecast, they know the market is likely to go up on Groundhog Day, and so they buy before then, causing the market to rise slightly. They then sell shortly after February 2, causing the post–Groundhog Day boost to be somewhat lower than it would be if driven only by superstitious investors' trades on or immediately after February 2. In other words, the small but statistically significant pre–Groundhog Day effect suggests that there are at least some nonsuperstitious investors who are aware of the anomaly and are actively investing against it.

If early-spring predictions correlate with cloudy skies, couldn't the abnormal market returns simply be driven by the weather? Researchers have certainly documented correlations between weather and investing behaviors. However, their findings actually support my conclusions. Bad weather generally corresponds to worse-than-usual market performance—and yet when there's bad weather on February 2, the market outperforms, suggesting that something else is going on. And in any case, the weather in one small town in Pennsylvania is unlikely to have much impact on national trading activity.

Was the effect stronger in certain industries or markets? Some of my colleagues have explored whether Punxsutawney Phil's forecasts have a larger effect on the stock prices of companies with strong ties to Pennsylvania, such as those in the steel industry, but their findings were inconclusive. In my own analysis I broke down results by sector but saw no significant differences.

Unsurprisingly, given that Groundhog Day is a North American custom, the effect isn't seen in other markets. I analyzed returns in the UK, Australia, Germany, France, and Japan and found no indication of an anomaly around February 2 in those countries.

Do you expect the Groundhog Day phenomenon to persist? In my research on other stock-market anomalies, I've found that the effects tend to diminish as the investing community becomes aware of them. When the market recognizes an anomaly, it usually self-corrects. But that analysis focused on more widely studied and publicized anomalies, such as the Monday effect, which has become so well-known among investors that it has largely disappeared. The Groundhog Day effect is much less well-known, so while our data suggests that some investors are already counteracting it to a degree, the market is unlikely to fully correct for it.

I suppose this article could change that! If enough people read it, perhaps it could! But remember, the Groundhog Day effect is relatively minor in scope. It offers potential abnormal returns of less than 3% to investors only once about every four years, so it probably won't become anyone's top priority. Studies have shown that you can make nearly double those returns just by selling in May and buying after Halloween—and that's assuming you have the patience and resources to make such a low-reward investment strategy feasible.

So you won't be retiring on your Groundhog Day earnings?
Not anytime soon.

Interview by **Dagny Dukach**
HBR Reprint F2301B

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HOW WE DID IT

Marico's Chairman on Innovating Across Every Part of the Business

by Harsh Mariwala

MARICO, THE INDIAN consumer-goods company I founded and still lead as chairman, was conceived around product innovation. I was a young man working at Bombay Oil Industries, the family firm that my father and grandfather had incorporated in 1948, which made and sold edible oils, oleo chemicals, and spice extracts in bulk. It was a commodity business with fluctuating margins and low growth, but I'd spent enough time analyzing our offerings and operations, traveling around India to observe consumer behavior across various regions, and talking to the end users of our products to see a hidden opportunity: We could do better by selling our oils in smaller branded units. I knew how traditional Indian businesses were run, but having visited the United States, I could see different market dynamics bubbling up. The task was clear: We should launch a small consumer-products division within the parent company.

Our focus would be to create value by nurturing innovation, finding additional paths to growth, and capturing previously untapped markets. There is a thrill in launching something new and watching it gain momentum; everyone

Photograph by PRARTHNA SINGH

involved in that fledgling division felt it, especially me. By 1990 our business was large enough to spin off under its own corporate brand—Marico. Over the next decade it became a household name.

I've always insisted that we continue to come up with new ideas, experiment with and iterate on them, and bring the best offerings to market. That commitment extends not just to new products, packaging, and marketing but also to our supply chain and talent management practices and our business model. Success requires not just leveraging your strengths but also taking risks, overcoming challenges, learning from failure, evolving your vision, and sometimes reinventing yourself. That's true for both organizations and individuals.

This ethos helped me transform a small family-firm division with early annual sales of about $61,000 into an independent, professionally run, and publicly traded entity with dozens of leading brands and a market capitalization of more than $8 billion. More important, I believe I've created an organization where innovation will carry on long after I've retired. I've also tried to inspire, recognize, and support fellow entrepreneurs and business owners around India through the initiatives and programs of the Marico Innovation Foundation, which I started in 2003.

FAMILY ORIGINS

The roots of our family business lie in the early days of Indian spice trading. My grandfather and great-granduncle specialized in ginger, turmeric, copra, and pepper shipped from Kerala to traders from Delhi, Calcutta, Amritsar, and Karachi. They opened a spice shop and a processing plant, and soon both earned the nickname "Pepper Man"—*Mari-Wala* in Gujarati—which became our family surname.

After India declared its independence from Britain, in 1947, my grandfather began exporting to Europe. My father then made a case for pushing further into manufacturing, starting with a small mill to convert copra into coconut oil. Next he set up a crushing plant, a refinery for edible oil, an oleochemicals plant, and a spice extraction unit, enabling the conversion of raw materials into finished products. He and his father incorporated Bombay Oil Industries and developed a reputation for quality products. By 1965 they had two brands—Parachute coconut oil and Saffola refined safflower oil—but most of their offerings remained unbranded, and everything was sold in tanks, barrels, and 15-kilogram containers.

I grew up watching my elders at work and was expected to follow in their footsteps. After studying accounting and economics at Sydenham College, I applied to the top management schools in India but wasn't admitted. I then asked my father if I could apply to U.S. and European MBA programs, but he said no, asking me to take a short trip abroad instead and then come back to join Bombay Oil. I was disappointed, but in hindsight his directive was a blessing in disguise.

On my travels overseas I discovered shops and malls laden with consumer brands in every category. Store layouts were well organized, packages were eye-catching, and advertising was seductive. Compared with the limited choices in the Indian market, this was a revelation. Returning to Bombay Oil in 1971, I found myself an employee with no real responsibilities, department, or supervision. It sounds like nepotism—and it was—but I used my freedom wisely. I visited our factories, tagged along with managers, spoke with office staffers in various departments, listened in on and attended sales calls, and talked directly with buyers about quality, pricing, service, delivery schedules, and complaints. I studied competitors' strengths and weaknesses, pored over our finances, and went not just to our key markets but also to those we weren't present in, visiting distributors and analyzing dynamics across the country.

I took management-training courses, too, to learn HR, accounting, and the like, but it was my on-the-ground research that gave me the most useful education—and eventually emboldened me to suggest changes at Bombay Oil. Those included factory automation, modern finance and sales systems, new HR processes, and eventually a business model shift—from bulk sales to consumer packaged goods—that put the company and my career on an entirely different trajectory.

BUILDING OUR CONSUMER BRANDS

Our two existing brands, Parachute and Saffola, were respected. Retailers, to which we supplied our 15-kilogram tins, would often dispense smaller measures of "loose" oil at a premium to customers who came in with empty bottles to fill. We could capture that margin ourselves and grow market share by selling our oils in more user-friendly sizes. We introduced two- and one-kilogram packaging, followed by 500-, 200-, and 100-milliliter tins. We recruited a sales manager from Hindustan Lever (a subsidiary of Unilever) and hired sales reps to tour the country promoting those new sizes to distributors and shop owners. We also ramped up our advertising and became more creative, launching the first-ever ad campaign for Parachute and promoting Saffola by touting the cholesterol-lowering properties of safflower oil. No edible-oil brand in India had focused on health before. We circulated literature on heart care, enlisted doctors, organized medical conferences, and produced books of healthful recipes, enriching the lives of Indian consumers while promoting our products. Our smaller packs were already winning over many consumers, but I thought that even stronger differentiation would dramatically increase our market share.

That led to our next packaging innovation. Our tin containers weren't very attractive or easy to use: You had to puncture the tin or cut open foil to get the oil out. I realized that plastic receptacles with spouts would be more aesthetically pleasing and make pouring easier. They would also cost less, allowing us to lower our prices while accruing extra profits to further invest in the brand. Although consumer research confirmed a preference for plastic over tins, distributors and shop owners were opposed, in part because a few years earlier another coconut oil producer had tried square plastic bottles, which leaked, attracting rats that chewed through the corners. Our solution? Rounded containers, with no edges to leak or to gnaw at. We even tested the new design by putting oil-filled bottles in cages with rodents for two days with a camera trained on them. Nothing happened! Our sales team shared the photographic evidence in the field, assured retailers that they would be reimbursed for any leaks or damage, and explained the potential for lower prices and more advertising. Soon our plastic bottles were widely accepted. However, we didn't stop iterating: When we realized that the oil would become viscous in bottles during winter months, we redesigned the bottles to have a wider mouth that allowed for scooping as well as pouring. Moving region by region, showing positive results in each before going on to the next, our CPG business built national distribution in less than 10 years.

THE NEXT CHAPTER

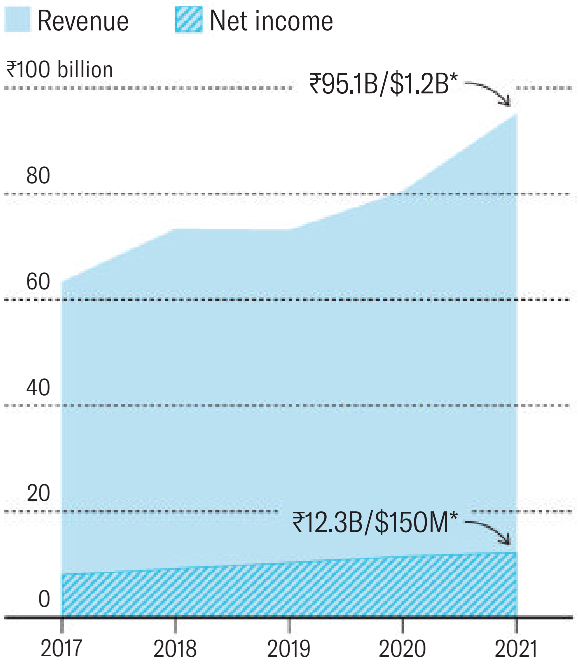
Led by soaring sales of Parachute, which pushed its share of the coconut oil market from 15% to 45%, Bombay Oil's turnover increased fivefold during the 1980s. I knew early on that I would need to engage professionals to grow the consumer-products division to compete with multinationals like Unilever, Nestlé, and Procter & Gamble. However, although our division could afford those hires, I was met with stiff resistance from family members who led other parts of the company. At the same time, I was frustrated by a lack of systems and processes to accurately track costs, revenues, and profits across our various businesses. Accountability was lacking, and we continued to be a hierarchy based on age and seniority, not a meritocracy.

I realized we needed drastic change, so I initiated a conversation with some younger cousins at Bombay Oil who also felt that their business aspirations were being constrained. We agreed that the best way forward would be to carve out each of Bombay Oil's businesses as an independent company, so we set out to bring the seniors on board. After much time, effort, and deliberation, the plan was approved—a watershed moment of winning consent and consensus through dialogue, perseverance, and belief in my vision. Everyone involved felt inspired to forge ahead to the future. I decided to name the newly independent consumer-products company Marico, a play on my name.

FACTS & FINANCIALS

Marico

Founded: 1990
Headquarters: Mumbai
No. of employees: 1,657



*Indian rupees to U.S. dollars exchange rate as of 11/7/22.
Source: Marico

We knew that to capitalize on our success to that point and recoup some of the costs of spinning off from Bombay Oil, we had to quickly distinguish Marico as not just a leading CPG supplier but also an employer of formidable talent. With limited resources, we again had to innovate. I asked our marketing agency to develop a short but striking ad campaign to announce our arrival. It had three parts that mimicked news articles. The first was headlined "200 Employees Walk Out of Bombay Oil" and went on to reveal that they were doing so to launch Marico. The second,

> Everyone knew that mistakes were acceptable if they provided lessons that would make the next initiative more likely to succeed.

"Mass Killer Nabbed," detailed Saffola's contribution (according to the medical data then available) to lowering the risk of heart disease. And the third, "Lalitaji Boycotts Coconut Oil," explained why a fictional cost- and quality-conscious housewife famous across India rejected any coconut oil other than Parachute. Those ads created buzz among Indian consumers and appealed to up-and-coming young managers. We were a new, exciting company willing to try out-of-the-box ideas.

I was also clear about the organization I wanted: one with decentralized decision-making and competent professionals filling the ranks from the top team to the front lines. I knew that my first Marico hire had to be an HR leader who would add credibility and value to our hiring strategy. With the help of that new CHRO, Jeswant Nair, who shared my desire to build an employer brand around empowering people to innovate, we quickly recruited a strong team of experts who knew much more than I did about their respective fields. I told them all, from executives to laborers, to call me Harsh.

Over the next few years we further developed our corporate brand and culture around three Ps: people, products, and profits. We knew that people—team members, customers, and business partners—were our greatest strength. Together we would make products of superior quality. Our profits would measure how well we satisfied the needs of Indian households and be reinvested in the business to improve our existing products, create new ones, and keep our people engaged. It was a virtuous circle. Through that lens we identified necessary and long-overdue improvements, such as significant upgrades for our factories and refineries, along with better management practices—perhaps ahead of their time—which included abandoning attendance requirements and simply making people accountable for achieving the desired results.

Most important, we encouraged new ideas, experimentation, calculated risk-taking, and the questioning of conventional wisdom. Everyone knew that mistakes were acceptable if they provided lessons that would make the next initiative more likely to succeed. Experimenting businesses never lose, only learn. So during the early 1990s we made some unexpected moves. Foremost among them was opening a state-of-the-art factory in Kerala, the source of our coconut oil. It offered lower-cost land and highly educated workers, but the state was viewed as industry-unfriendly because its labor unions were so powerful. Again, we succeeded because we innovated, creating a facility that prioritized worker and community interests with fair wages and ample training and development. Over a decade the project saw a return that was more than 10 times its cost and became a model for better production.

All the while, our product and packaging innovation continued apace. We launched Marico's Hair & Care, a premium, lightly perfumed hair oil, and Revive, a cold-water-soluble instant fabric starch. To thwart Parachute counterfeiters, we introduced a pilfer-proof cap. For the Saffola brand we created a heart-shaped, easy-pour container; new blends; low-sodium table salt; and a high-fiber wheat flour mix.

By 1996 Marico's sales had quadrupled and profits had doubled. My uncle Kishore and I negotiated with our other family members to buy out their interests within 18 months at a valuation determined by a third party. Ultimately we had to get creative about financing it and decided on an initial public offering. Some doubted that a homegrown Indian company could attract investors in an era when our market was dominated by multinational CPG companies. But we did. In a bearish market, the listing was well priced and oversubscribed. My uncle and I sold some ownership but retained 65% of it and raised much-needed capital.

NEW FRONTIERS

To make the leap from a CPG upstart in the 1980s and 1990s to a major industry player in the 2000s and beyond, we needed even more innovation. Working with the management luminary Ram Charan, we began to earmark 20% of annual profits for a strategic fund to develop new growth engines. That was how we would keep the pipeline of new products, brands, and business ventures full. One success from that period was a huge expansion of our hair oil lines into pre- and post-wash offerings with varying ingredients—available in a variety of sizes including single-use sachets—which we promoted with thoughtful advertising around special occasions such as Holi and Diwali. By 2019 Marico had a 25% share of that fast-growing category, and we soon leveraged our brands to expand into other grooming products such as gels, creams, and serums.

> Innovation can come from anywhere—but only if you are listening, leveling the playing field, and bringing people together.

Working with the Saffola brand, we tried baked snacks made from extruded high-fiber grains but quickly learned that customers expected indulgence foods to first and foremost be tasty—another failure-born insight, which we carried into a more successful brand extension: Saffola Oats. Starting with the plain oats popularized by U.S. brands like Kellogg's and Quaker, we soon gained a 15% market share. But the real innovation was in flavor. We knew that Indian consumers tend to prefer a savory breakfast, so we developed offerings to suit various regional tastes—tomato oats, pongal oats, masala oats, lemon and pepper oats—and found a new way of introducing them: in vending machines in airports, offices, gyms, and hospitals. They were a hit, and Saffola now has an 80% share of the savory oats market.

Another relatively recent triumph came from innovation in our business model: selling services as well as products. Hair-removal clinics had become hugely popular in the United States and the UK, and we thought Indian consumers would flock to them. But we didn't want to get into a business that could easily be copied and commoditized. So we began researching and prototyping an upscale, high-tech clinic that would offer an array of skin-care treatments. We bought equipment, hired staffers, and set up an experimental version in our Mumbai headquarters, asking volunteers to come in and give the services a try. Thus a new Marico subsidiary, Kaya, was born, and we were in the beauty business. Within a year we opened three clinics in Mumbai and three in Delhi. Soon we were elsewhere in India and in the Middle East. In an interesting twist, Kaya later became a platform for launching a range of skin-care products, retailed through the clinics and other channels. We now have 95 clinics in 31 cities in India and the Middle East and 62 Kaya products, generating annual revenues of 4.2 billion rupees ($51.3 million).

Finally, we have creatively expanded our business into new geographies, targeting Indians in the Middle East and like-minded consumers in Bangladesh with established Marico products while acquiring brands in other emerging Asian and African markets. Our international revenues now account for nearly a quarter of Marico's total.

THE WAY FORWARD

In 2014 I handed the reins of Marico to an able successor (and not a family member), Saugata Gupta. Since then he has driven innovation at the company, though I continue to advise and guide it as chairman. Today I spend most of my time trying to spread our ethos in the Indian business world through the Marico Innovation Foundation (MIF) and the Ascent Foundation; initiatives including research and intervention programs; our well-recognized biannual event, Innovation for India Awards, to identify and recognize breakthrough innovators; and the Scale-Up program, which provides pro bono support to entrepreneurs, including access to and mentorship from networks of industry leaders who teach not just what to do but also how to do it. Over the past 18 years MIF's mission has been to unearth, nurture, and help scale up game-changing innovations that enhance economic and social value in India, and we've been associated with more than 100 projects across diverse sectors.

When young people ask me what I learned in my five decades of building and leading Marico, my first response is "to focus." You should know your individual and organizational strengths and build on them to achieve depth and excellence. At the same time, you should be aware of and open to what's happening around you. There are always indicators of shifting mindsets and opportunities. If you remain alert to them and take calculated risks at the right time, you can spark growth. And even if you don't achieve the outcome you desire, you will learn valuable lessons in the process.

A key component of leadership success is understanding that your role is not just to make decisions but also to build an organizational culture that allows for the free flow of ideas and experimentation. Innovation can come from anywhere—but only if you are listening, leveling the playing field, and bringing people together in a shared purpose.

Above all, it's important to embrace innovation in every aspect of the organization. It doesn't always involve a new product or service; sometimes it's about solving a process bottleneck, developing a more astute way to collect consumer insights, or building a stronger, more diverse team. When you broaden the lens on innovation, you multiply your organization's chances of success. That's the only way to make quantum leaps in career, corporate, social, or economic growth.

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[*] https://www.businessgrouphealth.org/en/resources/2023-plan-design-executive-summary • https://tinyurl.com/mr2pccdt

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Spotlight

What Companies Get Wrong About Talent Management

Illustration by **KEMAL SANLI**

AUTHOR
Peter Cappelli
Professor,
The Wharton School

How Financial Accounting Screws Up HR It distorts hiring, training, and benefits practices.

MANY COMMON PRACTICES for managing employees are hard to explain. Why do companies obsess over cost per hire but spend so little time trying to see if they make good hires? Why do they provide so little training when we know it improves performance and many candidates say they'd take a pay cut to get it? Why do firms delay filling vacancies and let work go undone? Why do they spend so much money leasing personnel from vendors rather than hiring their own?

One answer to those questions is the peculiar way that financial accounting in the United States treats employment costs (which differs from the way that international standards treat them). Despite all the rhetoric about "investing in our people," training and development aren't considered investments; they're categorized as a current expense, a type of fixed cost—just as carpeting is. So are other employment costs such as wages and salaries for all administrative work. Given that U.S. companies enjoy considerable freedom to lay off workers, treating such expenditures as fixed costs that can't be reduced during economic downturns makes little sense. Along with other rules, it helps explain why more and more firms are shifting work to nonemployees, a trend that begins in cost accounting. By transferring work away from employees, companies get rid of fixed costs and move employment costs into another accounting category. In short, the financial accounting system distorts business decisions in ways that are worse for everyone—investors, employers, and employees.

Financial accounting, much more than the tax code, causes employers to make choices about work and employees that are at odds with effectiveness and efficiency. As I will explain in this article, you can see the negative consequences in practice after practice. If you add them all up, their impact is massive. The remedy is to make some simple, modest additions to reporting requirements, which I will describe. Despite being small, these changes would have a large positive effect on employees and business outcomes. But first, let's examine in depth the distortions that the financial accounting system produces.

Employees Aren't Treated as Assets

In the United States public companies are required to report their financials using standards based on generally accepted accounting principles (GAAP) established by the Financial Accounting Standards Board. Those accounting rules say that items with value are assets—but only if they're owned by the company. On that basis, employees are not considered assets—even though the tenure of a valuable employee is often far longer than the life of any piece of capital equipment. Even when a company buys other businesses to get

Illustrations by **KEITH NEGLEY**

access to their skilled employees, the acquisition of talent cannot be treated as an investment.

Meanwhile, GAAP rules allow a firm to count purchased software or equipment as an asset that can offset liabilities. They also permit a firm to depreciate the value of that purchase over its useful life. Depreciation forces managers to remember that assets wear out and that they have to budget for their replacement.

But what happens with acquisitions of employees? Suppose a company pays a lot of money—for signing bonuses and so forth—to bring in a team of hot computer scientists who are central to its new strategy. Those costs are current expenses that have to be completely deducted from taxable income the year they're hired, even though the business's managers don't expect to start getting value from them for at least another year or so. That may cause the firm to take a big hit to its income that year, and if it doesn't have enough to cover the expense, the overall operation will appear to be losing money, a huge red flag for investors. This is the case even if employees are essentially locked in with deferred payments, noncompete agreements, and other contracts.

A company also cannot claim to have made an "investment" in current employees on its books, because the accounting rules say it can't invest in something it doesn't own. Consider a firm that decides to send an employee to an expensive computer-programming course. It makes that investment because it believes the employee will be valuable for some time thereafter. But the financial accounting rules stipulate that the cost of such training is an expense that needs to be completely offset by income earned that year. This stipulation helps explain the continual decline in employee training and development, which in turn is one reason U.S. companies now fill almost 70% of their vacancies with outside hires. And the fact that companies cannot depreciate investments in human capital the way they can physical assets creates an additional problem: They have no equivalent way to plan and budget for the replacement of critical talent.

Another way financial accounting rules screw up training and employee development is by aggregating outlays on them with other costs in the very broad "general and administrative" category. Are you spending a lot on training employees—or on carpet? An interested investor will not know and can't find out.

Some may argue that it's sensible not to treat employment expenses as investments, because employees can walk away. But that reasoning overlooks the restrictive covenants companies have been piling on employees—the noncompete agreements, vesting periods on stock options, and even requirements that they refund employers for their training and education should they leave the organization. The irony is that, unlike capital assets that steadily and predictably erode, employees actually become *more* valuable over time simply through "learning by doing," which costs nothing.

Benefits Are Seen as Liabilities

Many employee benefits—including vacation time, sick leave, and health care coverage—are accrued or earned by the workers and owed to them in the future. Under GAAP, those benefits show up on the liability side of the

IDEA IN BRIEF

THE PROBLEM

Many HR practices in the United States are bad for companies, employees, and investors. They include the lack of investment in training, the increasing reliance on leased workers, and the shift from pensions to 401(k) retirement plans.

THE ROOT CAUSE

U.S. financial reporting standards treat employees and investments in them as expenses or liabilities, which makes companies appear less valuable to investors.

THE SOLUTION

Institute some small additions to what companies report, including expenditures on labor other than employees and on training; the employee turnover rate; and the percentage of vacancies filled from within. Businesses should voluntarily do this, and investors should continue to pressure the Securities and Exchange Commission for reforms.

> Pensions are treated as liabilities, and sometimes are the biggest ones companies have. Need to improve the appearance of your financial position quickly? Drop pensions.

balance sheet as obligations that must be offset by current assets. From an accounting perspective they're an even bigger burden than simple expenses are.

The enormous move away from pensions, or defined-benefit plans, to defined-contribution plans, such as 401(k)s, was in all likelihood largely driven by this financial quirk. Pensions are future obligations and are a guarantee to employees. The standard view in economics was that it was valuable for employees to have that guarantee and much easier for a large company than for an individual employee to manage any investment risk. In fact, a series of studies show that, on a per dollar basis, pensions, which had strong investment returns before the pandemic, would have been cheaper for employers in recent years than the equivalent defined-contribution plans.

But pensions are also treated as liabilities, and sometimes are the biggest ones companies have. Need to improve the appearance of your financial position quickly? Drop pensions and move to defined-contribution retirement plans. A big liability goes away, and the company instantly becomes more valuable.

The new "unlimited vacation" craze in Silicon Valley and among start-ups has a similar origin. In most organizations employees accrue or earn vacation days in line with their service, and the company owes that paid time off to them, which is a liability on the company books. By moving from an explicit commitment to a vague promise of unlimited time off, the firm removes the liability and immediately looks more valuable. This also helps explain why a growing number of companies are granting employees unlimited sick leave; that too helps them avoid an accrued liability.

GAAP Rules Are Fueling a Shift to Nonemployees

Arguably, a number of rules have been prompting a major effort by companies to move work to nonemployees. One involves treating wages and salaries as fixed costs. Such costs are a big worry for investors because if business and revenue decline and those costs can't be cut, the profitability and value of the business collapse in a hurry.

Why wages and salaries are ever considered fixed costs in the United States is a puzzle given that virtually all employment there is "at will," which allows companies to end it unilaterally for any business-related reason. Employers don't seem to have much difficulty laying off people if it improves financial performance and indeed seem to be cheered along by investors when they do so.

In addition, GAAP rules require companies to report their number of employees but not their total number of workers. Because several key performance measures are generated on a per employee basis—revenue and profit per employee being the most popular—a company that has moved jobs to nonemployees, reducing its head count, instantly looks more successful.

A final reason that companies have been increasingly using nonemployees has to do with the costs that go into producing whatever is sold—the cost of goods sold. These are called "above the line" costs, and they have a huge effect on perhaps the most important measure of profitability: gross profit margins. Other costs—those that are "below the line"—do not. A company that can move costs from above the line to below it will improve its gross profit margins. Work done under contract by nonemployees that is below the line also looks more like a nonrecurring expense—which is a variable cost, not a fixed cost—than employment does. And a company that pays for leased employee contracts in advance can even include some of that cost in the assets on its balance sheet.

The most common way large organizations shift work to nonemployees is not with independent contractors, known as gig workers, because businesses need stability and predictability in most of their activities. It's with the regular employees of vendors who work for clients at the clients' locations—"leased employees" who do the jobs that employees routinely would do. Direct numbers on the size of this workforce are hard to obtain, but some surveys indicate as much as 30% of the total amount spent on workers by corporations goes to nonemployees, and much of that goes to leased employees.

This helps explain why corporate budgets for leased workers are so large. My colleague Matthew Bidwell's study of one company's decisions about whether to have vendors or the company's own employees perform IT work found that managers had quotas for the amount of work that had to be awarded to vendors in given projects. That decision was not driven by local business needs. Remarkably, managers were allowed more slack in achieving cost targets when they used vendors than when they used employees.

As one manager noted, the buckets for costs were not the same, and the process and the bureaucracy involved in getting approval for a vendor were far less onerous than those for bringing on an employee.

Another fairly common corporate practice is outsourcing administrative tasks related to employment, like hiring, to avoid needing in-house staff to handle them. The size of the industry that provides outsourced HR services is now well over $500 billion. Some companies are also reducing internal HR payrolls by replacing people with software. HR executives often say that it's much easier to get money for an IT solution than it is to get the equivalent amount of money for personnel. But there are also questions about whether HR software really is as good as the professionals it replaces. A 2020 PwC survey found that C-suite executives, who tend to focus on priorities dictated by financial accounting, were 270% more likely to believe HR technology cuts costs than the line managers who actually used the software were.

There's strong evidence that these approaches have serious downsides. Research, including my own, has found that using temporary and leased employees hurts productivity and that such workers are less knowledgeable and less committed than regular employees are, make more demands on management, create coordination challenges with regular employees, and irritate regular employees, who worry about their own status and jobs and become less engaged. The fact that corporations need to create their own "vendor management" departments just to handle all those outsourcing contracts also suggests that dealing with vendors is neither simple nor cheap.

The rationale for contracting someone else's employees is not increased efficiency; it is exploiting GAAP rules to make your company appear more valuable to investors.

It's Hard to Get Approval for Employment

The squeeze is on to further cut the remaining jobs done by employees. In addition to setting dollar budgets for business units, many companies now set head count limits too. Operating managers often have part of their bonuses tied to their success in keeping their unit's head count below the ceiling.

It's easy to see how all this causes companies to be penny-wise and pound-foolish. One of the clearest examples is the brick-and-mortar retail industry, which historically has viewed labor as expendable and cut staffing and training budgets as it struggled to compete against online rivals. Research conducted by Marshall Fisher and his colleagues at the Wharton School, however, found that this run-lean strategy often backfires because having more and better-trained personnel would boost sales and operating profits at many stores. (See "Retailers Are Squandering Their Most Potent Weapons," HBR, January–February 2019.)

Another example is the airline industry. During the pandemic, the government gave airlines substantial subsidies to keep employees on their payrolls. Yet in 2021 airline leaders told Wall Street analysts that they were intentionally bringing back fewer workers than they'd had before the pandemic so that they could run even leaner, according to Peter Coy of the *New York Times*. The result was a staffing shortage during the holiday season, when demand for travel predictably surged. Flights had to be canceled, and the airlines lost business. Economywide, the difficulty that so many companies have had with unfilled jobs since the spring of 2021, when Covid restrictions began to lift, can be traced at least in part to delays in hiring. A lack of personnel has caused those companies to lose business too. This isn't surprising, given that evidence shows that companies that cut sooner and deeper in downturns struggle to get going when business returns and, as result, perform worse financially than their peers do. The productivity lag that the United States experienced during the 2010s has been attributed to the fact that employers cut their staffs too hard and too deep during the Great Recession, hampering their ability to rebound with the economy.

This misguided focus on minimizing head count is another reason HR staffs have been slashed. The ratio of HR staff to employees has fallen from one to 100 in 1980 to one to 150 now. The idea of eliminating employees like recruiters, who might be paid $75,000 a year, and adding their tasks to the plate of line managers, who are probably paid at least twice that, flies in the face of most cost-minimization strategies.

What Can Be Done?

The current treatment of human capital in financial accounting has no real defenders. Investor groups, believing that it leads to a lack of information that makes it more difficult for them to estimate the true value of companies, have led the drive for change. They have pushed companies, including those they hold significant ownership stakes in, to report more HR data—but so far

If investors could see that a lot of "administrative expenses" were actually being used to improve employees' ability to do their jobs, companies would look more valuable to them.

with little success. It's not that businesses like the current practice, but they have a knee-jerk reaction against any additional reporting, largely because it increases the amount of work they have to do.

In 2020 the U.S. Securities and Exchange Commission, which oversees financial accounting in the United States and empowers the Financial Accounting Standards Board, responded to investor groups' complaints by requiring that companies report on aspects of human capital that are material to understanding their businesses. But instead of stipulating what information companies had to report, the SEC gave each the power to decide what to disclose. The results so far have been discouraging: Seventy percent of companies reported hardly any metrics and seemed mainly to express platitudes about their commitments to diversity and inclusion or other socially desirable outcomes. Giving that much discretion to companies defeats a central purpose of accounting: to present information in standard ways to allow comparisons.

What should be done? Businesses have every incentive to report more information about their spending on training and other things that almost everyone but financial accountants would call investments. If investors could see that a lot of "administrative expenses" were actually being used to improve employees' ability to do their jobs, companies would look more valuable to them. The knock-on effect would push companies away from the imprudent and counterproductive practices the current accounting approach encourages.

Companies that see human capital as a source of competitive advantage could also require their vendors to report on measures that indicate bad practices, such as turnover costs, and good ones, such as training investments. That information helps customers assess what vendors can actually do: Is the promise of reliability from a vendor credible if half its employees quit every year?

For its part, the investment community needs to keep pressuring the SEC for change. It can point out that the new reporting requirements have had little effect and that there is an alternative model: the International Financial Reporting Standards (IFRS) used by companies outside the United States. Under those global accounting practices, companies can report more of the asset value of human capital. Arguably the best examples have been in valuing football (soccer) teams, whose assets are virtually all in players. IFRS practices allow their human assets to be amortized and the teams to be revalued when players are traded, released, and so forth.

What ultimately should we want the SEC to make companies report? A few simple measures would go a long way. The first is simply to break out cost categories that are already reported:

- How much are companies spending on workers other than their own employees? We have no sense of how efficient operations are when labor costs such as leased workers are hidden.
- How much is spent on training and other development efforts?
- What is the employee turnover rate, which measures the human capital going out the door? How much of that is due to quitting? That information, along with the total number of employees, which companies already report, will allow us to estimate the number of dismissals—a true sign of management problems.
- What percentage of vacancies are filled from within? That reveals the extent to which a company is growing its own talent or having to buy it from outside. This data is already collected by many companies' applicant-tracking software (as is turnover data).

FINANCIAL ACCOUNTING IS the scorecard that tells companies how well they're doing. The fact that it provides such a misleading view of human capital is a huge problem. While investor concerns about not being able to value companies accurately have gotten some attention, it's a much smaller problem than the systematic distortions that hurt operating efficiency and have largely gone unnoticed. Not all the problems of the financial accounting for human capital can be addressed by the simple changes described here, but it's hard to think of many other important issues where small changes could make as much difference.

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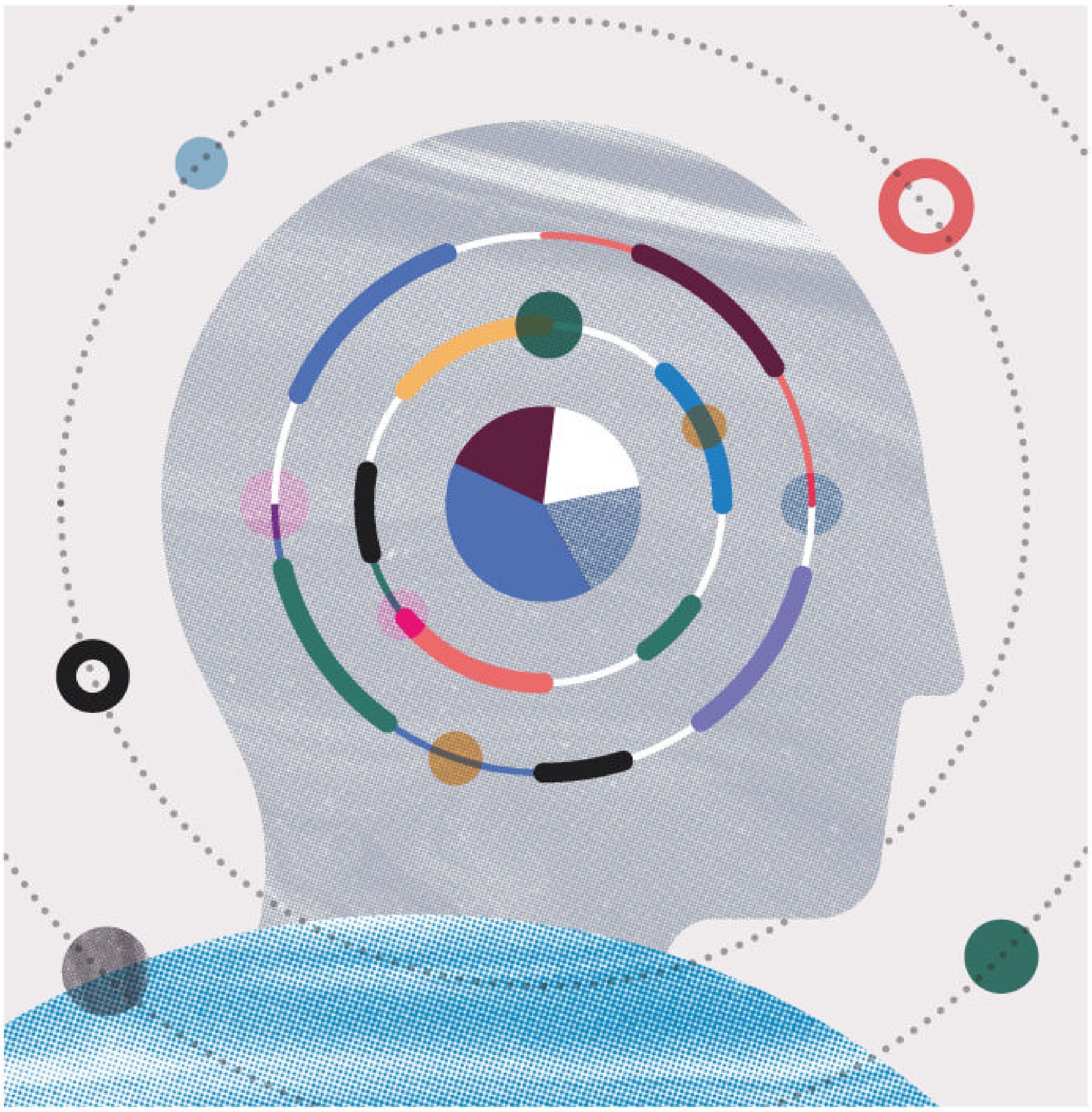
PETER CAPPELLI *is the George W. Taylor Professor of Management at the Wharton School and the director of its Center for Human Resources. He is the author of several books, including the forthcoming* Our Least Important Asset: Why the Relentless Focus on Finance and Accounting Is Bad for Business and Employees *(Oxford University Press).*

AUTHORS

Mark Mortensen
Associate professor, INSEAD

Amy C. Edmondson
Professor, Harvard Business School

Spotlight



Rethink Your Employee Value Proposition

Offer your people more than just flexibility.

THE GREAT RESIGNATION and a highly competitive labor market have made attracting and retaining talent a major challenge for employers. To meet it, many are following a basic strategy: *Ask people what they want and try to give it to them.*

Temptingly simple as this response is, it can be a trap. It tends to focus discussions on the material aspects of jobs that are uppermost in employees' and recruits' minds *at the moment.* In the past the foremost issue was often pay, but most recently it has been flexibility—notably, remote and hybrid work. And while material offerings are the easiest levers to pull (you can decide to give a bonus tomorrow) and are immediately appreciated, they're easy for competitors to imitate, and their impact on employee retention is the least enduring. An overreliance on them can set up a race to the bottom as employers strive to outbid one another for talent.

There's a much better approach—one that improves hiring and retention and shifts the focus of leaders and workers alike from what they want in the moment to what they need to build a thriving and sustainable future for the organization and for themselves. It's designing and implementing an *employee value proposition*—a system composed of four interrelated factors.

Material offerings include compensation, physical office space, location, commuting subsidies, computer equipment, flexibility, schedules, and perks.

Opportunities to develop and grow comprise all the ways an organization helps employees acquire new skills and become more valuable in the labor market—for instance, by assigning

Illustrations by **KEMAL SANLI**

> Studies have highlighted the perils of focusing too much on material offerings.

them new roles, putting them through job rotations, offering them training, and promoting them.

Connection and community are the benefits that come from being part of a larger group. They include being appreciated and valued for who you are, a sense of mutual accountability, and social relationships. Their foundation is an energizing culture that allows people to express themselves candidly and engenders a sense of belonging.

Meaning and purpose are the organization's aspirational reasons for existing. They align with employees' desire to improve local and global society. They're the answer to the core question of why employees do the work they do.

These factors vary with respect to how employees experience them. First, they're either short-term or long-term. Material offerings and connection and community are experienced in the short term. (While connection and community obviously take a long time to build, they're *experienced* in the present—employees are motivated by the relationships and culture they encounter today.) Growth and development and meaning and purpose are experienced in the long term.

Second, the factors are either individual or collective. Material offerings and growth and development opportunities are given to people on an individual basis, while connection and community and meaning and purpose are experienced on a collective level.

Leaders need to address the factors holistically to ensure that a focus on one doesn't undermine another. Take one of employees' most significant current demands: to be allowed to work remotely. While junior employees may be thrilled to be able to do their jobs from home, they realize that doing so has a cost. When 544 U.S. college students and recent graduates were recently asked by the Generation Lab what they would miss if they worked remotely, 74% cited the office community, and 41% said mentoring.

In our consulting work and research with companies in industries ranging from financial services to software to consumer goods, we have encountered a handful of executives who are thinking about how the four factors affect interactions with workers. Realizing how fragile the bond between an employee and a company can be, they've stepped back to try to identify all the things their people need over time to thrive and produce high-quality work. One such HR executive told us, "Worried about losing people, senior leadership keeps telling us to 'throw retention dollars at them.' But they need to be asking, 'What are we doing to develop them? What are we doing to give them purpose?'" Several studies support this point of view. For example, research by the University of Toronto's Jing Hu and Jacob B. Hirsh found that people will accept lower salaries for doing meaningful work.

Other studies, including our own ongoing work, have highlighted the perils of focusing too much on material offerings. Researchers at Microsoft and the University of California, Berkeley, who analyzed the emails, calendars, instant messages, video and audio calls, and working hours of 61,182 U.S. Microsoft employees during the first half of 2020 found that remote work made their relationships more siloed and reduced collaboration. And work relationships matter enormously to lots of employees. We spoke with one young computer scientist who recently left a coveted position at a large financial services company expressly because its work-from-home policy meant no one was in the office; she took a job at a tech firm that required employees to be in the office at least four days a week. As a recent graduate of a vibrant computer science program at a top university where students learned from one another and enjoyed socializing together, she valued the energy, camaraderie, and idea sharing that came naturally with physically working alongside her colleagues.

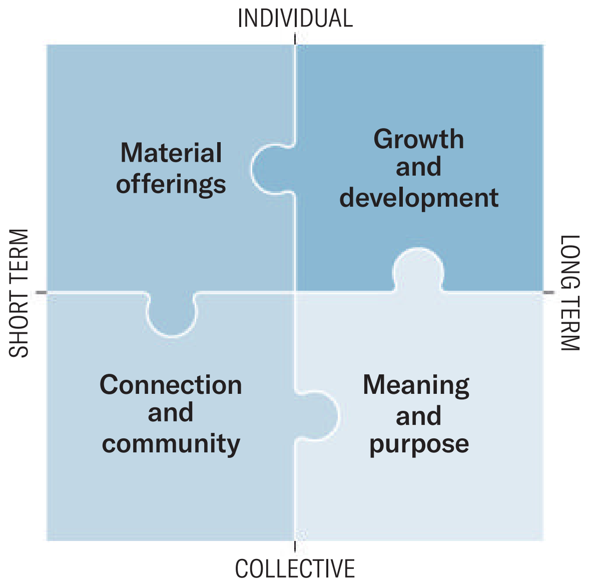
Another body of research shows that people tend to prioritize satisfying their short-term individual desires. A recent discussion with a head of a department in a private financial group offers a case in point. The executive told one of us (Mark) that he disagreed with the CEO's "out of touch" push to get his team to return to the office, arguing that he enjoyed working from home and that the high level of productivity of team members was evidence that they should be allowed to stay fully remote. Mark said he believed that the executive probably was more productive individually but wondered how well he thought his junior people were being mentored and whether his group still felt strongly connected. The executive's face fell, and he nodded and said, "You're right, I hadn't thought about that." Overcoming the automatic biases that prioritize the present over the future and one's own needs over those of others requires thoughtful, skilled communication from leaders.

Why a Systemic Approach Is Necessary

At many companies the four factors are managed separately. HR handles growth and development, for instance, while the C-suite owns purpose. Companies also tend to address the factors

How to Win the Talent War

To improve recruiting and retention, companies need to create an attractive employee value proposition. Its four components differ in how they're experienced by workers and should be managed holistically to ensure that a focus on one doesn't undermine another.



in sequence: They focus on offering competitive pay to hook recruits and then highlight their development opportunities to retain existing workers. That approach ignores how changes in one factor affect others.

Consider what happened at one software firm that serves companies in engineering, construction, and manufacturing. After Covid-19 cases subsided, the CEO and other top executives wanted everyone back in the office. But employee surveys indicated that people didn't want to come back. The executives relented, only to have employee engagement scores suffer over the next few months. Interviews with staff members revealed a "loss of connection," with many saying that they missed seeing their colleagues or that their "experience of belonging" was diminished. As the engagement scores continued to fall, executives discovered that people were less happy despite being given what they ostensibly wanted. The executives realized that they had failed to consider how remote work might affect employees' sense of community over time.

While such systemic effects are intuitively easy to appreciate, most companies ignore them in practice. For instance, companies invest untold hours and consulting fees in compensation benchmarking but rarely measure what their own employees think of their compensation, particularly in the context of purpose, advancement opportunities, and community.

Though problems occur most frequently when a firm's singular focus is on material offerings, they also arise when it's on other factors—something UNICEF recently discovered. When it comes to attracting talent, UNICEF arguably has one of the most compelling and motivating purposes anywhere: to protect the world's children. Not surprisingly, that mission has long been a primary asset in recruiting and retaining talent. But investigations conducted in 2018 and 2019 revealed that the organization's mission-related "results at all costs" culture had encouraged bullying and harassment and triggered many departures. In our discussions with them, senior UNICEF officials recognized that by promoting its incredibly powerful purpose in isolation, the organization had inadvertently created a toxic culture. That recognition led them to launch initiatives to balance purpose with employee development and connection and community.

As both examples illustrate, an effective and enduring employee value proposition requires treating the four factors as interdependent parts of an integrated system. That makes synergies possible. The experience of the CEO of another software company reveals how. In early 2021 he recognized the need for a multidimensional approach to engaging employees. His new hybrid work policy, postponed twice in response to new variants of Covid, was unusually comprehensive. It began with a renewed emphasis on the company's purpose: solving problems together to create a better world. Senior leaders spoke often about why the work the company did mattered and how employees in diverse roles contributed. The company also rolled out a leadership development program to support a culture of learning, psychological safety, and collaboration and offered a set of growth and development opportunities that clarified how people throughout the workforce could move up in the organization. Critically, the CEO recognized that the elements of the program worked in combination—for example, that while the culture of learning obviously supported individual growth and development, a focus on collaboration promoted peer-to-peer mentoring, the sharing of best practices, and other forms of connection. Renewing the purpose energized the culture, according to employee surveys. With those factors addressed, the company turned to its material offerings regarding remote work. The new policy asked employees to spend two or three days at the office a week; each team was allowed to figure out the best days and rhythm for its members' work, and the company doubled down on making its offices around the world attractive to employees.

Another example of the effectiveness of an integrated employee value proposition can be seen in the turnaround

To access a free survey tool that will help you assess how well your company's employee value proposition serves your needs, go to ***Integratedevp.org****.*

that Hubert Joly led at Best Buy after becoming its CEO, in 2012. He deliberately put purpose—"enriching customers' lives through technology"—first. In a 2021 *Forbes* article, he recalled, "We achieved this turnaround by pursuing a noble purpose and treating profit as an outcome, not a goal." He emphasized how a noble purpose aligns with employees' own thirst for meaning, creating a virtuous cycle of "human magic" that gives rise to an energized community focused on delighting customers. Yes, Joly also gave workers better perks and reorganized store floor plans. But critically, he didn't cut staff or wages—the conventional approach to turning around a company—and instead invested not only in purpose but in culture and training.

When senior executives think systemically, they naturally consider the relationships among the factors in the employee value proposition. They wonder, "How might this change impact other things that employees care about?" Garry Ridge, who retired as WD-40's CEO last year, did just that when his employees expressed a desire to continue remote work as the pandemic waned. He told us, "We came out with a philosophy called Work from Where, in which we said, 'We don't care where you work from, but we do ask that you use our corporate values to make your decision.'" One of those values is "creating positive, lasting memories in all relationships," which encouraged employees to explicitly weigh whether they were contributing to the WD-40 community (another corporate value) against a preference for working from home—and to figure out when remote work was effective and when it wasn't. According to Ridge, most employees chose to work in the office. He added that an integrative approach is self-reinforcing: "We think about it holistically, we act consistently, and the snowball of benefits gets bigger." There is evidence to support that: In a recent survey, 90% of WD-40 employees said that the company's culture had improved in the previous year—a period when employee disenchantment at many organizations had grown. It's notable that WD-40's engagement scores have been over 90% for the past 22 years. During that time its total shareholder return has grown at a compounded annual rate of 15% and its revenues have tripled. Its market cap also grew from $300 million to $2.4 billion (as of October 2022).

What Should Leaders Do?

A systemic approach to attracting and retaining employees entails three steps:

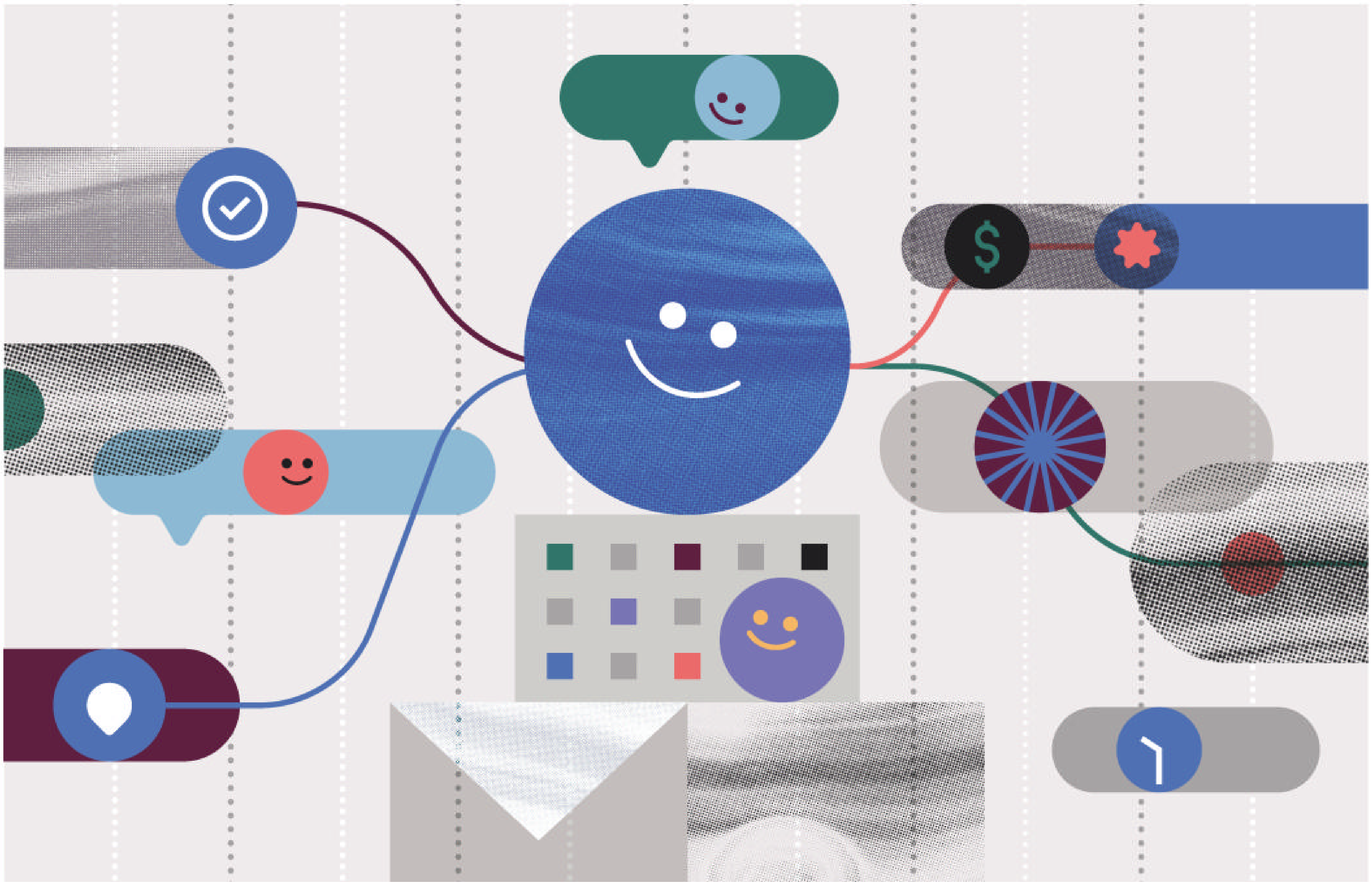
1 **Assess what your company has and what your employees need.** Start by understanding both the supply and the demand sides of the equation. That requires collecting information on what your organization is currently providing with respect to each of the four factors, how employees experience them, and what your employees want. Data collected using traditional survey and interview methods will suffice. But don't skim the surface. When you examine employee engagement, don't focus just on scores; also investigate the causes of changes. A rise in intent-to-leave scores, for instance, may be driven by either a perceived lack of growth opportunities or a feeling of being disconnected from colleagues. Each cause has different implications for action.

2 **Change the conversation.** Once you have data on what your organization is providing and what your employees need, make sure managers and their reports are discussing the employee value proposition in an integrated way. If you're explicit about how the factors are related, it will reduce disagreements and misunderstandings around the "why" underlying key decisions. Don't just announce the policy; explain why it's necessary for the company and how it will benefit employees over the short and long term.

As with any attempt to change mindsets and behaviors, repetition and consistency are critical. So make sure that you have thoughtful, structured conversations about the relationships among the factors when:

→ ***Recruiting and onboarding*** (including reonboarding of pandemic hires). During interviews you should not only ask candidates about what they're looking for from the company but also clearly lay out the system of offerings that your organization provides over time. By determining whether the needs of potential employees are aligned with those of the company, you can reduce costly hiring mistakes. In addition, explicitly discussing the rationale underlying your employee value proposition can help you craft an offer that's more compelling than your competitors'. In onboarding new hires, avoid "Rah, rah, let us tell you about our culture" sessions; instead show how your culture supports individual development and the organizational mission.

→ ***Managing performance.*** Your system for this should measure all four factors. Consider building your assessments—whether for teams, business units, or the entire company—around



questions that encourage employees to think broadly about their work: How does my work contribute to the organizational purpose? What am I doing to build relationships, create community, and maintain a positive, strong attitude and energy on my team? What learning and development opportunities am I pursuing, and how do I support others on our team and their learning? What am I doing to ensure the delivery of excellent results wherever and whenever I work? Hold ongoing conversations about those issues to reinforce a holistic employee value proposition.

→ ***Setting and adjusting policies.*** At the introduction of any new or updated policy be sure to explicitly note how the policy affects the four factors. That will help employees think about its broader effects and recognize trade-offs they might overlook. It will avoid the kind of backlash that Apple experienced in the spring of 2022, when it was forced to pull back its mandate that employees work in the office three days a week. According to National Public Radio, "the company decided to postpone its plan after more than 1,000 current and former employees signed an open letter [that] called the plan inefficient, inflexible, and a waste of time."

3 **Continually update.** Employees' needs are dynamic and should be reassessed on a regular basis. Collecting data annually will suffice for most companies, but those experiencing a significant event such as a major merger or acquisition may want to do it more frequently. Ongoing measurement is vital to evaluating how relationships among factors in the system may shift as reinforcing loops or tensions strengthen over time.

APPROACHING EMPLOYEE ATTRACTION and retention as a system helps avoid a race to the bottom, makes a company's employee value proposition harder to imitate, and helps create a clear narrative that reduces us-versus-them tensions between managers and their reports. It allows your organization to move from reacting to the demands of the moment—whether they're for signing bonuses or remote work—to creating an environment that enables people to reach their full potential. And that is the key to building an organization that thrives over the long haul.

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MARK MORTENSEN *is an associate professor of organizational behavior at INSEAD.* **AMY C. EDMONDSON** *is the Novartis Professor of Leadership and Management at Harvard Business School. Her most recent book is* The Fearless Organization *(Wiley, 2019).*

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AUTHOR

Roger L. Martin
Former dean,
Rotman School of
Management

Designing Jobs Right

Make them challenging—but don't overdo it.

ONE OF MY favorite Star Trek story lines is about the Kobayashi Maru training simulation for Starfleet Academy students. It was first featured in the second Star Trek movie, in 1982, and then when the movie series was rebooted, in 2009.

The simulation presents Starfleet cadets with an agonizing dilemma: An officer must decide whether to rescue a civilian ship deep in enemy territory, putting his or her own entire crew at risk, or to let the 381 passengers and crew on the disabled ship die. When faced with this choice, Star Trek's central protagonist, the irascible Captain James T. Kirk, then a cadet, refuses to accept the no-win scenario. Instead he hacks into the simulation and reprograms it to enable him to save the civilian ship without losing his own starship. When his ruse is discovered by academy officials, he's severely punished—but his determination to change the rules when faced with an impossible task endears him to the audience and foreshadows a distinguished career of rule-bending heroism. It also illustrates a fundamental truth about human behavior: When people are given an assignment they can't do or don't want to do, they'll make up a different job and do that instead. Sometimes it works out—as it did for Kirk. But mostly it doesn't, at least not from the perspective of employers.

For more than 40 years I've been working closely with leaders and managers in all kinds of organizations as a consultant, researcher, and educator, and I've seen this phenomenon time and again, almost always with destructive consequences. I've also learned how managers and their subordinates can prevent it by taking the time to explore their jobs and objectives together. Let's begin by looking at the source of the problem.

Why Do People Redefine Their Jobs?

Virtually everyone is motivated to succeed, but people don't experience a sense of success when a job is too easy. Alternatively, they won't succeed at all if the job is far beyond their capabilities. If they can do the job but find it unchallenging, they'll redefine its scope so that it is challenging. If it's challenging but not doable, they'll transform it into something they can do.

Both are natural and sensible reactions—from the jobholder's perspective. The downside, of course, is that the job has been changed, which almost ensures that it won't fulfill its intended function. Kobayashi Maru was designed to be unwinnable so that the Starfleet Academy could see how cadets performed in the face of defeat. To be sure, Kirk displayed initiative, but he prevented the test from making the assessment it was supposed to make.

On one level preventing employees from changing a job should be simple: Make sure it is doable and challenging. But problems with feasibility and a lack of intellectual stimulation usually aren't obvious, and neither is the way most jobs get altered. What's more, productivity isn't just a function of a job's definition and the individual performing it. The people who oversee the job are integral as well, and their approach needs to be carefully framed by the jobholder so that the latter is set up to succeed.

To the Boss: Tailor the Task to the Person

There's an unspoken assumption that a job is a collection of tasks the employee does every day, every week, and every month. The trouble is that modern managerial jobs aren't easily defined and evolve over time.

Illustration by KEITH NEGLEY

As I have argued previously in HBR, a managerial job is actually an array of projects—with varying degrees of difficulty—that take shape, require intensive work, are completed, and then fade into the mists of time. If you're a brand manager at a consumer goods company, for instance, your projects could include launching a new brand extension, repricing your existing offerings, creating ad copy, working out a problem at one of your key retailers, analyzing the profitability of your brand, and so on.

Given all that, a one-size-fits-all definition of "brand manager at Anywhere Inc." probably won't reflect the reality of an employee with that title. Her role on some projects will be too challenging, and on others not challenging enough. And she'll redefine each project to suit her needs. I've seen this happen with jobs across industries from software to telecom to professional services to consumer goods to finance. Problems emerge most often when an employee has to do tasks concerning both the management of a current project and the creation of a new one.

In almost every case, tasks related to the current project feel easier and less scary, while it's difficult to even know where to start on the new project's tasks. What inevitably happens is that the person in question redefines her job as taking care of the current project first and then working on the new one. Just as inevitably, she never gets around to the new project's tasks because the current project is "more time-consuming" than she imagined. I have watched years go by without any progress being made on new ideas because managers always had other stuff to do first.

How can you stop that kind of thing from happening? I got my first lesson about this in the early 1990s, when I was a member of a four-person global executive committee that ran Monitor Company, a strategy consulting firm.

We had a practice of collecting anonymous upward feedback after every project. Case-team members would evaluate their case-team leader (CTL, often called an engagement manager in other firms). For the first two years we did this, one of the nearly 100 CTLs was far ahead of the others: Jan Rivkin, who has gone on to a successful academic career at Harvard Business School. Curious about his high ratings, I decided to interview the team members who had worked with him to see what he was doing.

The usual approach was straightforward: When CTLs got a new case to run and had a group of team members assigned to work on it, they'd break the project down into its component tasks and parcel them out to various people. Sometimes team members' preferences and experiences would be considered or their requests would be acted on. But mainly the leaders would deploy their team members as they saw fit.

Rivkin did something different. He would sit down with each team member and talk about the role that person would like to play on the case. While he couldn't fill every request, he was always able to go a long way in that direction. I realize now that as a young man he had figured out that the key to productive subordinates was ensuring that they all found their tasks both challenging and doable. And because Rivkin's world at Monitor was explicitly project-based, he knew that he had to do that with every team member more than only once a year—or once ever. I didn't ask at the time, but in retrospect I suspect he did so multiple times throughout each project.

I call such discussions *chartering conversations*. During them, if the manager intuits that a subordinate is nervous, she can consider splitting the responsibilities, with the subordinate taking a smaller slice. Or she might ask the subordinate to work on the task and come back with a recommendation for her to consider. If that's still too intimidating, then the subordinate's task could be to generate options for the manager to consider. And if that is still too daunting, then the manager will have to dig in and provide help, structuring the task enough that the subordinate can see his way to generating options. If after all that, there is still a problem, at least the manager will realize that she probably has assigned the wrong person to the job, which is a useful thing to know early.

On the other side of the coin is a situation in which the task isn't challenging enough. Once again, the manager has to figure that out in the chartering conversation and determine a way to make the task sufficiently engaging for the subordinate, by having a dialogue about how it might be redesigned.

I had a conversation like that when I was a board member for Canada's national tennis federation and the chair of its committee in charge of high-performance tennis. We were talking with the late Bob Brett, who had coached Boris Becker and Goran Ivanišević to Wimbledon titles, about becoming our high-performance consultant. The obvious job he could have done for us would have been to coach our very best late teens. But in talking to Brett, I quickly realized that coaching late teens just wouldn't be stimulating enough. He had been there and done that. The answer turned out to be creating the program for and leading the coaching of Tennis Canada's players under 12. He had never

> Bosses want a real, value-adding job. And when they haven't been given one, they tend to create one that isn't terribly helpful: nitpicking.

done anything like that before, and he wanted to design an entirely different program for the early development of players. And so he did—with wonderful results that helped put Canada on the global tennis map. And every time he was in town, I worked with him to tweak his assignment to keep it challenging but doable.

What's the bottom line? If you want to make sure the people you oversee are productive, you must have a conversation with each subordinate to codesign every task so that it is both challenging and doable. Though that might sound too time-consuming, the savings on rework will dwarf the hours you spend on such conversations.

To the Jobholder: Give the Boss a Job in Return

Job design is a two-way street: Each subordinate must also help design the tasks that the boss will do—or else the boss will make them up by herself, with results the subordinate may not like.

I see that happen whenever a boss gives an assignment to a report. Whether a CEO has delegated a mission to the president of a business unit, or a business unit president has handed over an initiative to a category manager, or a category manager has entrusted a brand manager with a project, the sequence of events is eerily consistent. The subordinates do an enormous amount of work to prepare the project for review by their bosses. They wait until the work is as thorough and bulletproof as possible and then present it for approval. But bosses have no interest in sagely nodding and saying, "Great work!" That is a dumb job. They want a real, value-adding job. And when they haven't been given one, they tend to create one that isn't terribly helpful: nitpicking. *What about this? Have you thought about that?*

Subordinates get this kind of reaction at all levels, right up to the very top. I'll never forget a client's board meeting I attended early in my career advising CEOs. It was a public company, majority owned and chaired by a brilliant telecom entrepreneur and billionaire. Minutes into the CEO's strategy presentation, the chair began to interrupt him with increasingly aggressive questions. I realize now that the CEO had given this proud and accomplished chair a stupid job—to admire management's wisdom. The chair took offense and decided to do another job: schooling the CEO. Understandably, the CEO didn't appreciate that. The CEO was gone less than a year later, and the chair had to hire a new management team.

Instead of waiting until the 11th hour to give bosses a dumb job, give them smart jobs along the way. Come back early and say, "Boss, I'm defining the problem you gave me as one of streamlining our go-to-market approach to make it more cost-effective *and* responsive to end customers. Does that definition resonate with you? How might you modify or enhance it?" That is a real job that bosses can do and will enjoy doing, and it will help your strategy effort.

When you have possible solutions, come back and say, "Boss, based on the problem definition that we refined, I've come up with the following three potential solutions. Are you so allergic to any of them that it isn't worth pursuing? Or is there another possibility floating around in your mind that I should be considering?" Again, that's a perfect task for bosses, and in my experience of helping managers have this dialogue, bosses love it and add value in taking it on. If the CEO I advised years ago had set up his chair's job like this, that board meeting would have gone very differently.

The key is to keep coming back with tasks that are valuable to you and are both doable and interesting for your boss. Of course, if subordinates dump problems back on bosses' laps with a helpless shrug, bosses will react badly, as they should. But if subordinates make good progress and offer bosses real tasks, in my experience bosses will delightedly provide helpful input. The final payoff is that when employees get to the approval meeting, bosses will feel they have an important and fulfilling responsibility: affirming that the work they have done together with subordinates is sound and ready for prime time.

CAREFULLY DESIGNING THE jobs of subordinates and superiors to be both challenging and achievable is one of the most important personal-effectiveness tools for any manager. If you don't do it well, you'll cause those around you to redefine their jobs—and your work will be the collateral damage. But if you do it consistently, their work will add value to yours—the ultimate win-win.

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A former dean of the University of Toronto's Rotman School of Management, **ROGER L. MARTIN** *is an adviser to CEOs and the author of* A New Way to Think *(Harvard Business Review Press, 2022).*

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ENTREPRENEURSHIP

The Overlooked Key to a Successful Scale-Up

It’s mastering the **“extrapolation”** stage, when start-ups begin to focus on profitability, not just growth.

AUTHORS

Jeffrey F. Rayport
Professor, Harvard Business School

Davide Sola
Professor, ESCP Business School

Martin Kupp
Associate professor, ESCP Business School

PHOTOGRAPHER
SEAN LEMOINE

ABOUT THE ART
Sean Lemoine's photos capture scenes at LDRS (Large Dangerous Rocket Ships), an event for rocket enthusiasts held in the Mojave Desert.

CONSIDER THE TALES of three start-ups that seemed poised for success.

In 2012, King Digital Entertainment had established itself as a developer of popular free games on smartphones. Its user base was growing exponentially, driven by the hit game Candy Crush Saga. From mid-2012 to mid-2013 the company experienced a 12-fold increase in revenue but only a sixfold increase in costs. The result was a nearly 70-fold increase in operating income, from €10.5 million to €716 million.

SoundCloud was an online audio-sharing platform and a rival of Spotify and Apple Music. From 2012 to 2013 its user base grew 15-fold, from 10 million to 150 million registered users. However, its revenues increased less than 50%, from €8 million to €11 million, while its operating costs grew 75%, from €16.5 million to €28.5 million.

In 2017, WeWork, a celebrated coworking venture, had raised $10 billion in equity and debt. Its top-line revenues had doubled for five consecutive years, and its membership had grown 10-fold. But over the same period, operating costs rose from $400 million to almost $2 billion, leading to significant and deepening losses.

Of these three high-flying start-ups, only King Digital Entertainment became a stable, highly profitable business. What explains their diverging fortunes?

Drawing on an examination of dozens of rapidly growing ventures and our experience teaching courses on scaling up enterprises at our respective business schools, we've concluded that what made the difference was that King Digital Entertainment engaged in a developmental stage we call *extrapolation,* in which a company explores profitable growth options while exploiting economies of scale and scope. This stage isn't part of traditional organization theory, which says that businesses are in either exploration mode or exploitation mode.

Exploration involves the search for product-market fit. The company's hypothesis about how it will deliver value is tested to determine whether customers have a problem to be solved or a pain point to be addressed—and are willing to pay for the company's solution.

Exploitation begins when the fast revenue and profit growth enjoyed in the start-up stage slows and reverts to market norms. In this phase the company aims to strengthen its competitive advantage by fine-tuning the business model and strives to achieve incremental long-term growth and stable profits.

IDEA IN BRIEF

THE CHALLENGE
Many start-ups and new corporate ventures that grow very fast never sustain profitability and hence scalability.

THE INSIGHT
In an often-overlooked stage of growth—extrapolation—successful start-ups ensure that each new customer brings in additional revenue and incurs only marginal cost—the key to lasting, profitable growth. During this phase firms turn product-market fit into profit-market fit.

THE TAKEAWAY
To keep scaling up, a start-up or a new enterprise initiative must have a host of resources in place—such as a proven monetization approach, a strategy to exploit network effects, and robust capital resources. It must also be managed as an "ambidextrous" organization—capable of exploring new businesses while exploiting its existing core business—and systematically remove internal business-model constraints on growth.

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> The company must construct a business model that boosts revenue while reducing variable unit costs and containing fixed costs.

These two stages are well-known—start-ups often begin with a bang, and a few seem to emerge as stable giants. But in our view extrapolation is the often-overlooked but critical phase between exploring many opportunities and exploiting one.

During this stage start-ups pursue two goals. The first is to confirm the extent to which product-market fit shows that there is demand for the company's offering. The second is to achieve what we call *profit-market fit*—to demonstrate not only that the venture can ramp up revenue rapidly but that every new customer brings in additional revenue and incurs only marginal cost—the key to profitable growth.

King Digital Entertainment, SoundCloud, and WeWork all proved the value of their offerings by achieving impressive growth in numbers of customers and theoretically were positioned for market dominance. But King alone was able to turn its top-line growth into comparable profit growth during the extrapolation phase. Each new smartphone user who downloaded the Candy Crush Saga app brought in revenue that went almost directly to the bottom line. SoundCloud, in contrast, never managed to develop a scalable and profitable way to monetize the enormous consumer audience it had built. WeWork's problem, aside from the well-known controversies surrounding its ill-fated initial public offering, was failing to establish an increasingly profitable business model to support its global network of coworking spaces.

What is the key to successful extrapolation? It demands new ways of thinking about strategy, operations, financing, and speed. It also requires approaches to organizational structure, culture, and talent that are distinct from those of the other two phases. Start-up and enterprise leaders alike must consciously treat extrapolation as a specific stage in the development of any new venture or new-to-market offer.

Principles of Extrapolation

In the companies we studied the extrapolation phase spanned as little as a year and as much as three years. Eventually, competitive responses, market saturation, or shifts in the external business environment brought this phase of dramatic growth in revenue and operating income to an end.

Our research shows that ventures that succeed at extrapolation have three characteristics:

1. They understand and leverage the conditions that are critical for success.
2. They follow a rigorous extrapolation process.
3. They have ambidextrous organizations that can manage strategic experimentation and disciplined execution simultaneously.

Let's look at each of these in turn.

Critical Conditions

Extrapolation requires two types of conditions to be in effect: *necessary* conditions, which don't by themselves create extrapolation but must be present for it to occur, and *sufficient* conditions, which can produce it.

There are two necessary conditions:

A robust market. Extrapolation requires a large number of customers who have similar needs and will pay for a product that meets them. (It may seem obvious that the market must be big enough to support scale, but we are often struck by how many early-stage start-up teams miss this point or misconstrue the relevant data.)

Solution repeatability and distinctiveness. The product the company offers must be the same for each customer but differentiated from competitors'. Homogeneity simplifies the business model and makes it easier to scale up.

In addition, we have identified five sufficient conditions. Not all are essential to success in every case, but several are always present when extrapolation works.

An effective go-to-market strategy. The venture must have a clear plan to reach users through direct or indirect channels, turn them into loyal customers, and persuade them to promote the product. Consider the pre-owned-apparel business ThredUp, which appears to be in a successful extrapolation phase. To get there leadership had to scale up both sides of its platform, recruiting enough sellers of used clothing to attract buyers. By focusing on achieving high engagement and satisfaction among both buyers and sellers, it activated powerful word of mouth, which propelled the growth it needed to pull off its recent IPO and generate a 39% annual increase in profits.

A proven monetization approach. The offer ultimately must generate revenue directly or indirectly through payments or advertising. Without healthy revenue sources,

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GONE BANANAS
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scale is hard to justify or support. That was one of the problems that dogged SoundCloud: It derived limited revenues from listeners and only modest revenues from the musicians whose songs it hosted. In comparison, Spotify, while still challenged in its profit model, derives huge revenues from a mass audience of paying listeners.

Network and density effects. While network effects kick in when a platform or a product attracts enough users to make it more valuable to other users, density effects happen when the concentration of users in one geography or market segment intensifies substantially, leading to virality or word of mouth, or the average number of new-user referrals each existing user in the network makes is greater than one (a concept known as the *viral coefficient*). Effective extrapolation usually (but not always) requires strong network and density effects that enable economies of scale and limit defections to other offers.

Increasing returns. The company must construct a business model that boosts revenue while reducing variable unit costs and containing fixed costs. Tech platforms (like Facebook, Nextdoor, and Slack) are famous for achieving extreme economies of scale, given that each incremental unit of service delivered often incurs zero variable cost. Such platforms also grow fixed costs more slowly than top-line revenue—often by a factor of three to five—an obvious formula for success.

Substantial capital resources. Without question, there are founders and ventures that can bootstrap their way to scale. The direct-to-consumer home-goods retailer Resident was able to largely self-fund its early growth because it sold

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Most ventures must raise significant outside capital in order to achieve the rapid growth in scale seen in extrapolation.

big-ticket, high-margin products (mattresses) from day one. But in reality, most successful ventures must raise significant outside capital in order to achieve the rapid growth in scale seen in extrapolation.

A Rigorous Process

Successful extrapolation requires a focused, systematic approach to identifying and removing internal business-model constraints on growth. The theory of constraints process, first codified by Eliyahu Goldratt in his classic book, *The Goal,* suggests that companies can do so by following these five steps:

1. Articulate the growth goals (for example, "achieve a fivefold increase in revenues and a 10-fold increase in operating margin") and examine whether the necessary and sufficient conditions for achieving them are present. The goals selected will be influenced in part by market and business-model realities and in part by the founding team's level of ambition.

2. Define the critical assumptions underpinning your business model. These should be based on an assessment of what factors must be in place to produce growth. In other words, ask "What needs to be true?" for you to realize your growth goals. For example, to increase revenue 10-fold, you might need five times as many customers who make purchases three times as frequently as your customers currently do.

3. Identify the business model constraints—the barriers to achieving your growth goals—and the right sequence in which to tackle them. For example, managers may discover that the cost of a certain input is an enormous constraint or that the market is just too small. The theory of constraints tells us that no chain can be stronger than its weakest link, and that thinking applies to the business model. Every model will have one or more constraints that limit its output.

4. Develop a way to remediate the most significant constraint. You may need to either examine how other companies have adapted their models to address the same type of constraint or develop an innovative new business model to find a work-around. The key is to apply what we call "strategic experimentation," in which you validate adaptations or innovations on a small scale before applying them to the whole business.

5. Once the first constraint is no longer a barrier to growth, select the next one and remediate it. Continue this iterative process until all significant constraints have been addressed.

To understand this process in action, we studied how Niraj Shah and Steve Conine, the founders of the home-goods retailer Wayfair, approached extrapolation. Initially known as CSN Stores, the venture began as a collection of niche e-commerce sites focused on narrow product categories, each accessed through a generic web address in the form of "product.com" (such as RacksAndStands.com or EveryGrandfatherClock.com). As revenues grew, CSN wound up with more than 200 such sites and encountered a first significant constraint: Few customers who bought from one site had any idea that the same company operated other similar sites. That meant CSN lost sales from satisfied customers who otherwise would have come back to buy again. Here the constraint was the dispersion of channels. There were too many channels and no network effects.

The retailer's first remediation effort focused on increasing repeat purchases. The founders rebranded the business as Wayfair and then consolidated all the "product.com" sites under the new name, combining millions of SKUs on one platform. Once that integration was complete, cross-selling and repeat purchase rates took off.

The second remediation effort focused on increasing customers' lifetime value by improving fulfillment. The business was drop-shipping more than 85% of orders, meaning they were sent directly from suppliers, which made it difficult to ensure that they were filled in an accurate and timely fashion. Customers who had bad experiences with orders were unlikely to return. To address that problem, Wayfair established a network of distribution centers to handle its fastest-moving SKUs. That way it could "forward position" inventory for vendors (without taking title to merchandise, sustaining its asset-light business model), enabling faster fulfillment and more-consistent service to consumers. That helped cement loyalty to the Wayfair brand.

The third remediation effort focused on lack of product differentiation and defensibility. Management realized that the business was constrained by its generic and commoditized offerings. As a result it had to compete on price. The

> Extrapolation is most effective at companies where authority is distributed to teams rather than held within a tight management hierarchy.

goal was to start selling products that were exclusive to the site and more distinctive in the eyes of consumers. That was achieved by implementing several branding initiatives. Wayfair worked with suppliers to develop private label lines, capturing additional points of margin with an array of proprietary offerings. Shoppers could no longer directly compare Wayfair's prices against competitors'. In addition, Wayfair created "lifestyle" brands, which presented otherwise unrelated SKUs (say, a sofa and a dining room table) in highly styled groupings. Because many of these were also private label, they boosted gross margins. Meanwhile the groupings increased average order value by encouraging shoppers to buy combinations of items. All those changes led to higher lifetime values.

An Ambidextrous Organization

In their 2004 *Harvard Business Review* article "The Ambidextrous Organization," Charles O'Reilly and Michael Tushman described companies that could simultaneously explore new businesses while exploiting their existing core businesses. The ability to do that is crucial to extrapolation success.

Almost all growing ventures, after they move beyond the early start-up stage, routinely need to reinvent themselves and refine their core business. But such flexibility is especially important during extrapolation. "When we were growing the user base, we had to adjust and change our monetization mechanism several times," King Digital Entertainment's cofounder Riccardo Zacconi told us. "Initially it was geared toward advertising, but then it became almost entirely reliant on selling virtual goods." In fact, the adaptation process at King went further than a pivot in monetization. Relentless experimentation brought about changes in the revenue model, management processes, staffing levels, and the organization of the company's studios and teams.

King managed to scale up its infrastructure while reducing unit costs. It did that by rigorously analyzing the drivers of its customer acquisition cost and then lowering it through iterative in-market testing. That business model transformation was carried out at the same time that strong product-market fit unlocked rapid revenue growth. During the extrapolation phase, King's leadership was able to simultaneously explore and exploit. Rather than canceling each other out, those seemingly opposed approaches came together to make the organization stronger.

In our research we have found that the following elements are crucial for rapidly growing start-ups and corporate ventures that aim to achieve ambidexterity:

Modular organizations and autonomous teams. Ventures that successfully navigate the high-stakes transition from start-up to scaled-up keep their working units small. King, for example, doesn't have one creative studio, as many entertainment companies do; it operates five studios, in parallel, that are part of creative clusters around the world. Voi Technology, a European app-based electric-scooter company, is organized into units for different metro markets. Such modular approaches allow ventures to expand without losing their agility. During extrapolation, businesses need to replicate the success of proven business models while maintaining the flexibility to invent new ones. Without modular forms of organization, pivots become challenging or nearly impossible to pull off.

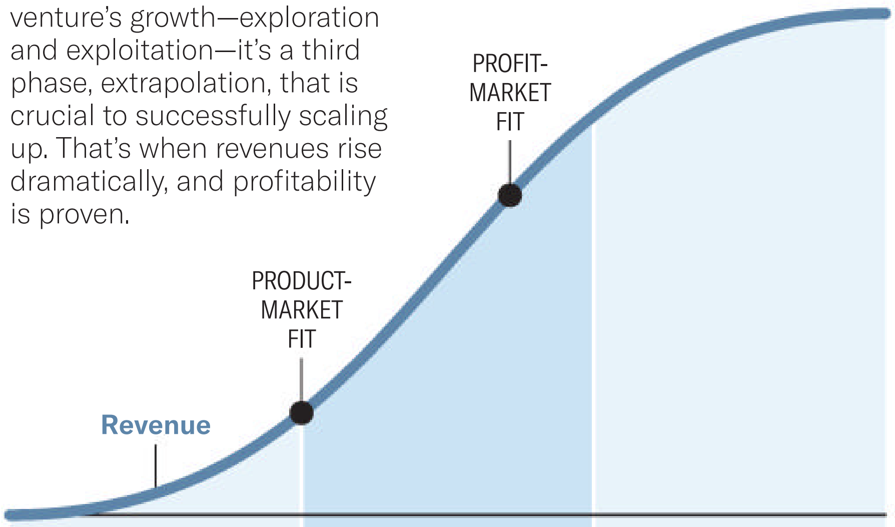
Extrapolation is also most effective at companies where authority is distributed to teams rather than held within a tight management hierarchy. For example, at King's successful competitor Supercell, Ilkka Paananen aspires to be the "least powerful CEO in the world," which means that his teams can make all key decisions about game franchises without consulting him or others in top management.

Swift reallocation of talent. When a business enters the extrapolation phase, management must begin assigning its most valuable human capital to its highest-potential opportunities. Both King and Supercell move game developers off unpromising or maturing game franchises with ruthless speed and discipline. Resident, the bed-in-a-box mattress company, laid the groundwork for rapid talent reallocation by launching itself as a virtual organization long before the pandemic. Because most of its staff works remotely, Resident can tap the best employees from anywhere around the world and continually reassign them to projects with the highest prospects.

Cultural management. Because workforces tend to expand dramatically during extrapolation, culture is an essential tool for maintaining a firm's focus, mission, and

Three Stages of Venture Growth

Though conventional wisdom says there are two stages to any venture's growth—exploration and exploitation—it's a third phase, extrapolation, that is crucial to successfully scaling up. That's when revenues rise dramatically, and profitability is proven.



Exploration	**Extrapolation**	**Exploitation**
3 MONTHS TO 3 YEARS	1 TO 3 YEARS	INDEFINITE
The company tests hypotheses about how it will deliver value to customers until it achieves product-market fit.	Demand rises rapidly, and the company strives to bring in additional revenue at decreasing marginal cost until it achieves profit-market fit.	Revenue growth begins to level off, and the company fine-tunes its business model to strengthen its competitive advantage.

direction. King invests in large-scale "infomarket" events, where it brings all its talent together to reinforce cultural norms and "create energy." At Zoom, the teleconference software company, the founder and CEO, Eric Yuan, champions what he has called a "culture of happiness," predicated on the idea that a happy organization is more likely to develop products that will delight users.

Expansion of opportunities. Many of the successful ventures we examined didn't regard their initial market opportunity as fixed. Rather, they pursued two goals simultaneously: first, increasing the total potential market, and second, unlocking higher-quality revenue growth (that is, revenues with higher margins). Chegg, for instance, started as an online marketplace where college and university students could rent or buy used textbooks. Under new leadership, it reframed its mission of serving students with a holistic offer—a web portal that the company originally called the Student Hub—which was designed to address an array of students' needs (with course schedules, study guides, information on internships, and more). That change dramatically expanded the potential market while also shifting the model from a seasonal sales and rental business with narrow gross margins to a platform business with robust gross margins, higher and more-predictable revenue, and reduced seasonality. Chegg's story demonstrates how extrapolation entails the creation of a better, more sustainable business model too.

The embrace of inorganic growth. While early-stage start-ups are relentlessly focused on refining their offers in search of product-market fit, ventures in the extrapolation phase often consider acquisitions as a way to expand geographic footprints (and thus their markets), address talent gaps, add features or functionality, or augment reach in terms of audience, users, or customers. Chegg went on an acquisition spree (buying six companies in 15 months) in order to add features to its Student Hub portal. Though not all those purchases were successful, together they brought in critical capabilities during a period when time was of the essence.

OUR RESEARCH DEMONSTRATES the wisdom of approaching extrapolation as a distinct phase of business development with its own principles, processes, and management requirements. More than half the ventures we studied did so, and they appeared to have a higher likelihood of success.

Managing the dynamics of rapid growth is an enormous challenge for young businesses—start-ups and initiatives within enterprises alike. Once executives understand the fundamental differences between exploration, extrapolation, and exploitation—especially the requirement of not only product-market fit but also profit-market fit—they can confidently navigate the difficult transitions between the phases, make the necessary changes in focus, and adopt the right approach at the right time.

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JEFFREY F. RAYPORT *is a senior lecturer in the Entrepreneurial Management Unit at Harvard Business School.* **DAVIDE SOLA** *is a professor of entrepreneurship and strategy at ESCP Business School.* **MARTIN KUPP** *is an associate professor of entrepreneurship and strategy at ESCP Business School.*

PRICING
STRATEGY

Expand Your Pricing Paradigm

Look to other industries for inspiration.

AUTHOR

Rafi Mohammed
Founder, Culture of Profit

ILLUSTRATOR
LALALIMOLA

SALE
KFC

IDEA IN BRIEF

THE MESSAGE
In response to economic pressures, companies should reexamine not just their prices but their pricing strategy—they should look for different ways to charge customers.

THE TACTICS
Many of the best pricing innovations result from borrowing models from other industries—offering to rent a product that's typically bought, selling a service by the hour instead of by the day, or applying technology to better measure how much of something consumers are really using.

THE IMPLEMENTATION
Consider which pricing tactics have the most potential to attract new customers and drive revenue, along with the costs of each. By adding new pricing options, you increase the odds that customers will find one tailored to their needs.

FOR NEARLY A CENTURY, most auto insurance companies have priced their services in the same way, charging customers an annual premium for unlimited driving. The premium varies depending on a driver's age, vehicle, driving history, estimated annual mileage, coverage levels, and other factors, but the basic pricing scheme—an annual premium—has been an industry standard.

A little more than a decade ago, executives at Allstate began debating a question: If we could better assess who's driving safely and how much someone is behind the wheel, could we improve the way we set prices—and attract new customers in the process? After careful study, Allstate decided the answer was yes.

In 2010 the company introduced Drivewise, a program that uses telemetric technology (a plug-in device or a smartphone app) to monitor enrolled customers' real-time driving habits, such as sudden braking and excessive speed. Allstate could now rely on more-accurate data and adjust premiums accordingly. People who consider themselves safer drivers flocked to Drivewise, which also offers them personalized feedback about behaviors they can change to lower their bill. "Customers get excited over the savings and the gamification," says David MacInnis, who led the telematics program until recently.

> Technologies that are now commonplace—such as GPS, smartphone apps, predictive analytics, and AI—make it easier than ever to design and use new pricing models.

In 2016 Allstate introduced another innovation, Milewise, aimed at customers who don't drive frequently. Instead of fixed annual premiums, Milewise customers pay a low daily rate for insurance coverage, plus a per-mile fee based on actual driving (also determined by telemetric data). Drivers who sign up for Milewise see premiums drop by 50%, on average.

In states that allow telematics-based insurance pricing, 36% of new Allstate auto insurance customers now choose the Drivewise or Milewise pricing options. During 2020 and 2021, when Covid-19 restrictions reduced commuting, the number of vehicles covered by Allstate's Milewise program increased by 725%. "Customer satisfaction with these products shows that this is the future of auto insurance," says MacInnis. Indeed, Allstate has plenty of company in offering telematics-based policies: Progressive, Liberty Mutual, State Farm, and Nationwide, for instance, all do the same.

Most industries have traditional ways of pricing goods and services. Firewood is priced by the cord, and deli meats are priced by the pound—that's just the way things are done. But some companies have begun to rethink these paradigms in ways that can benefit existing customers while simultaneously attracting new ones, thus boosting revenue and profit margins. Software firms once practiced per-seat licensing, charging corporate clients a fee for each employee with access to the programs; today many have shifted to a software-as-a-service model that relies on metered usage, the way utility companies charge for water or energy consumption. Shipping and mailing fees have traditionally been based on weight and travel distance, but now the U.S. Postal Service allows customers to cram as much as they can into flat-rate boxes and envelopes, paying the same price regardless of how heavy the package is or how far it's going. Magazine publishers once offered annual subscriptions for printed issues, but as publishing has moved online, some media companies (including HBR, for which I've worked as a consultant) now offer monthly subscription options too.

Rethinking a pricing paradigm requires creative thinking. At most organizations, discussions around pricing focus on simple price-setting: whether to charge $27.99 or $29.99 for a restaurant entrée, for example. Those decisions depend largely on costs, customer demand, and value relative to other options. Some companies do adopt a more sophisticated approach, such as good-better-best (G-B-B) pricing. That involves bundling product elements or services into distinct pricing tiers (typically three) and encouraging customers to decide which set of offerings makes sense for them. (See my article, "The Good-Better-Best Approach to Pricing," HBR, September–October 2018.) When fancy restaurants offer early bird, regular, and chef's table options, that's an example of G-B-B pricing.

This is the right moment, however, for companies to investigate other, more inventive pricing strategies. A key reason is that recent economic changes (including record inflation and fear of a recession) have forced businesses to scrutinize their pricing in order to preserve margins. Meanwhile, many consumers are examining their household budgets and spending more cautiously. In this economic environment, offering a new pricing structure can be an attractive alternative to simply adjusting prices. Furthermore, technologies that are now commonplace—such as GPS, smartphone apps, predictive analytics, and artificial intelligence—make it easier than ever to design and use new pricing models.

Changing your pricing strategy can also help you target different demographic groups. For instance, research shows that Millennials and Gen Zers are especially open to no-haggle pricing and to renting or leasing as an alternative to owning. Additionally, announcing a pricing change can generate excitement: When Subway introduced $5 footlong sandwiches in response to the Great Recession, same-store revenues jumped an average of 25% in two weeks.

In this article I describe various pricing models that companies might consider, and I offer guidance on identifying and implementing the right ones. By adding one or more of these as an option alongside existing price plans, firms can better serve their current customers and win over new ones.

Many of the pricing moves that I see companies trying are not particularly novel; instead, what's innovative is that they're being imported to an unexpected sector or product category. Men have rented tuxedos since the middle of the 20th century, but the rental model had rarely been applied to women's clothing until Rent the Runway launched in 2009. Vacation time-shares have existed since the 1960s; more recently, entrepreneurs have appropriated this split-ownership model for private jets and yachts. There's nothing new about all-you-can-eat restaurant buffets, but because they are still unusual in the fast-food industry,

Opening spread, clockwise from left: dem10/Getty Images, jamielawton/Getty Images, pjohnson1/Getty Images, wwing/Getty Images, Mr.kitsadakron Pongha/EyeEm/Getty Images, ET-ARTWORKS/Getty Images, C.J. Burton/Getty Images, deepblue4you/Getty Images. Previous page: Henrik5000/Getty Images

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customers flock to the only KFC in Canada that offers a deal on unlimited fried chicken and sides; some people drive three or four hours to dine at that location.

In short, when it comes to pricing, innovation often consists of borrowing ideas that are already proven to work in other industries.

The pricing tactics that follow are grouped into five categories based on the objectives they help companies accomplish. Those objectives are not mutually exclusive; many of the tactics deliver multiple benefits and could be listed in more than one category.

1 Accommodate Different Usage Levels and Preferences

Customers have unique needs in terms of how much they use a product. At the simplest level, this is why coffee chains offer small, medium, and large sizes. Consider these other approaches that marketers can use to price goods and services to please people who want a high or low quantity and certainty over what they'll be charged:

Unlimited or all-inclusive plans. These deals appeal to people who seek to avoid extra charges or enjoy consuming heavily for a fixed price. All-inclusive vacations are an example: Travelers know they can partake of all the food, beverage, and activity options available, and they won't receive a surprise bill at the end of the trip. In the ski and theme park industries, season passes are another example. Kings Island amusement park, in Ohio, not only offers passes for unlimited admission, it also sells a $105 pass entitling customers to two meals in the park every day. And in 2022 the concert promoter LiveNation offered a $199 pass that provided entry into the lawn section for all regular concerts at a selected venue.

À la carte or unbundled pricing. This is the opposite of unlimited, and it appeals to consumers who prefer to pick and choose to avoid paying for things they don't want. Over the past decade, much of the airline industry has shifted to an à la carte pricing model, charging travelers lower base fares and then add-on fees for checked baggage, early boarding, in-flight meals, and so forth. Those extra charges can add up: In 2021 Spirit Airlines passengers spent, on average, $46.16 in airfare and an additional $58.64 in nonticket revenue. Some consumer advocates are pushing for à la carte cable television so that viewers with no interest in, say, sports needn't buy a cable bundle that includes ESPN. Some resorts sell daytime access to pools and fitness facilities to people who aren't staying the night. If high inflation and a weak economy cause consumers to be especially price conscious, companies that launch à la carte pricing may find additional customers.

Metering. Allstate's decision to offer car insurance for a per-mile charge is an example of metering, as is the software-as-a-service model. Metering has similarities to unbundling, but it typically involves transparently tying charges to small incremental increases in usage, the way the meter in a taxi charges users for every eighth of a mile driven.

Pricing by unconventional time increments. Zipcar, which rents cars by the hour, upended the customary practice of renting by the day or the week. Changing the traditional time increment of pricing can be a powerful tool to activate customers for whom a higher price is prohibitive.

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When Amazon introduced its Prime membership service, in 2005, it charged an annual fee of $79. (The cost is now $139.) When it began offering Prime as a pay-by-the-month option, currently at $14.99, membership surged.

Split usage, leasing, and rentals. These pricing models appeal to customers who cannot afford or don't want to own a product. Split usage works well for high-priced assets that the typical owner doesn't use often—second homes, private planes, and the like—and usually involves selling fractional ownership interest in the asset. (Vacation time-shares are the classic example of split usage.) Leases and rentals are well-understood pricing models for houses and cars, but they can be applied to other types of products. For instance, many cities now offer bike rentals by the hour—an innovation that combines renting, altering the standard time increment (from by the day to by the hour), and using technology that allows bikes to be unlocked from unstaffed kiosks (requiring no employees) located all around a city.

2

Appeal to Customers on a Tight Budget

Even before inflation escalated, many consumers struggled to afford purchases. Companies that offer financing alternatives—which are a form of pricing—can help people afford goods and services within their cash-flow constraints. Here are some ways companies make pricing more attractive via financing:

Payment over time. Both brick-and-mortar and online retailers have expanded the options for paying over time—which include buy now, pay later (BNPL) programs, layaway plans, and installment loans—partly because of the growth of third-party financial companies such as Affirm. Payment plans appeal to consumers who don't trust (or can't get approved by) credit card companies. They also tout transparency, offer fixed interest rates, and generally avoid late-payment charges—advantages over traditional credit cards. An October 2022 survey by LendingTree found that more than a third of Americans (36%) expected to apply for a BNPL loan in the next six months. Even industries that have always offered financing are finding ways to innovate. When General Motors introduced car loans in 1919, it required a 35% down payment and full repayment within one year. Over the past century, auto-loan repayment terms stretched out longer as vehicle prices rose. By the first quarter of 2022, the most popular length of a new car loan in the United States was six years, and 73% of loans were for more than five years, up from 40% in 2010.

Prepayment. Cellular companies pioneered the use of prepaid plans to serve people who wouldn't pass a credit check. That's a significant market: More than one-third of Americans have credit scores that place them in the category of subprime. For companies, prepaid plans reduce the costs of delinquencies, bad debt, and billing. Car rental agencies and hotels are other businesses that use prepayment as a common pricing tactic, offering nonrefundable, prepaid reservations. If a recession further reduces consumers' creditworthiness, look for prepaid options to proliferate.

Capped or flat rates. These pricing plans appeal to customers who prefer certainty to surprises. Home heating companies frequently offer season contracts guaranteeing a fixed rate on oil prices for the entire winter. Part of the appeal of the ride-sharing services Uber and Lyft is that they

> For products or services subject to price swings, offering customers a way to guarantee a future price could prove attractive.

quote a flat rate for a trip at the time of booking, avoiding the uncertainty created by metered taxi service. Flat-rate shipping boxes provide not only price certainty but convenience, by eliminating the need to weigh packages.

Future options. Investors have long had the ability to buy an option, which gives them the right to buy or sell a security at a fixed price sometime in the future. Options are also common in commodity markets; for instance, airlines typically use options to reduce their exposure to fuel price fluctuations. Now predictive analytics can allow some companies to offer consumers pricing models that function like options. Hopper, the fintech travel company, has a Price Freeze product that guarantees the price of an airline fare, a car rental, or a hotel room for a fixed time. Nearly 20% of hotel bookings on Hopper are frozen before being purchased. For products or services subject to price swings, offering customers a way to guarantee a future price could prove attractive.

3

Provide Price Break Opportunities

Some consumers take particular pleasure in snagging bargains and getting discounts. The following three models appeal to those customers, often by showing them exactly how much they're saving off the regular price.

Mixed bundling. This strategy combines different products into a package at a single price. Examples include fast-food meal deals; symphony, ballet, and theater packages that include tickets to multiple productions; and bundled plans for homeowner's, auto, and life insurance policies. Mixed bundles work best when many customers are likely to be interested in all the included components. Trying to combine services that appeal to different kinds of people can prove less effective. In 2020 Apple launched its Apple One bundles, which combine TV streaming, music, video games, and iCloud storage in a single subscription (with news and fitness services as optional additions). But for me, including Apple Arcade in all the packages renders them unattractive since I do not play video games.

Volume discounts. This strategy encourages customers to purchase more than they otherwise might. Volume discounts can be especially compelling to businesses when the marginal cost of a product is negligible. Big Gulp soft drinks at 7-Eleven are one example: When the convenience store chain began offering them, profits from soft drinks nearly doubled; today they can account for up to 10% of sales at stores. Warehouse clubs such as Costco have built entire businesses catering to consumers who enjoy the discounts that come from buying in large quantities.

Progressive pricing. Events and conferences often use this model, in which prices start out at one rate and increase at set intervals prior to the event day. "The three reasons for employing progressive prices are to reward loyal customers who purchase early, create a sense of urgency, and incentivize commitment," says Bill Donabedian, an events producer and promoter in Cincinnati. This strategy also provides an excuse to reach out to customers repeatedly (often by email or social media) under the guise of saving them money before the price increases. At the same time, event organizers gain insight from the pace of sales: If many customers buy early, demand may be stronger than the business expected.

4

Establish Prices When Value Is Uncertain

Businesses face an unusual challenge when deciding what to charge for a new offering or an experience that's happening just once, because they have little historical data to guide them. Companies can use the following techniques to let customer demand influence pricing:

Auctions. Competing in "bidding wars" for purchases makes some consumers anxious. Others love the thrill. Auctions appeal to people who hope for a bargain if the bidding proves weak. This model can be especially useful for sellers who are uncertain what to charge. For years Warren Buffett auctioned off (for charity) the opportunity to have lunch with him. Before 2022, the most a bidder had paid for the experience was $4.57 million, but when Buffett announced that 2022 would be the last lunch he'd offer, the auction garnered $19 million. If Buffett had set the price himself, he probably would not have chosen such a high figure, so an auction made sense and proved advantageous. Priceline and eBay are two companies that grew by allowing customers to make bids for purchases that aren't typically sold by auction. Other industries are trying the technique too. For instance, cruise ships and airlines have begun using auctions that allow customers to bid on cabin upgrades. Technology is one factor driving experimentation with auction pricing. Live, in-person

A Menu of Pricing Plans

The art of designing an effective pricing strategy involves creatively mixing various tactics to serve the largest possible customer base. Note that some of the pricing options listed here can meet more than one objective—for example, volume discounts may appeal not only to customers who love a good deal but to those who consume heavily and those on a tight budget.

If you want to satisfy customers with different usage needs, consider:

Unlimited or all-inclusive plans	*E.g.*, all-inclusive resorts; season passes at ski resorts and theme parks; all-you-can-eat restaurant buffets
À la carte or unbundled pricing	*E.g.*, airline ticket add-ons to base fares; day passes to hotel facilities for nonguests
Metering	*E.g.*, taxi rides; per-mile car insurance
Pricing by unconventional time increments	*E.g.*, hourly Zipcar rentals; pay-by-the-month Amazon Prime memberships
Split usage, leasing, or renting	*E.g.*, vacation time-shares; tool rentals; party equipment rentals

If you want to appeal to customers on a tight budget, consider:

Payment over time	*E.g.*, buy now, pay later programs; layaway plans; car loans
Prepaid plans	*E.g.*, prepaid cell-phone cards; nonrefundable hotel reservations
Capped or flat-rate pricing	*E.g.*, home heating contracts with fixed oil prices; flat-rate charges by moving companies
Future options	*E.g.*, Hopper's Price Freeze feature for locking the price of travel reservations before purchasing

If you want to draw customers who love a good deal, consider:

Mixed bundling	*E.g.*, fast-food meal deals; season subscriptions to performing arts venues
Volume discounts	*E.g.*, Big Gulp sodas at 7-Eleven; bulk purchases at warehouse stores
Progressive pricing	*E.g.*, discounts for advance conference registration; higher prices for same-day tickets

If you want to sell a product or service of uncertain value, consider:

Auctions	*E.g.*, Priceline and eBay purchases; stateroom upgrades offered by cruise lines
Royalties or sales commissions	*E.g.*, fast-food franchisee royalties; real estate agent commissions
Dynamic pricing	*E.g.*, Uber and Lyft rides; airline tickets; concert and sporting-event tickets

If you want to improve business efficiency, consider:

Off-peak pricing	*E.g.*, discounted movie matinees; lower fares for travel in less-busy periods
Subscriptions	*E.g.*, streaming services; meal-kit deliveries
Initiation fees	*E.g.*, country club and gym memberships

auctions are cumbersome, but computers can make auctions a seamless experience. This pricing model also lets companies optimize revenue by allowing consumers to tell them exactly what they're willing to spend.

Royalties and sales commissions. Because publishers don't know how many copies of a book will sell, they traditionally deal with that uncertainty by offering authors a royalty—a payment based on overall sales. Fast-food franchising uses the model, too, because sales can vary dramatically by location. Business Insider reported in 2020 that Chick-fil-A charges franchisees just $10,000 to open a new store but then collects a 15% royalty on sales and 50% of the remaining pretax profits. Similarly, real estate agents work on commission, charging their clients a percentage of the selling price of a property rather than setting a fixed price for their services.

Dynamic pricing. Since computerization became common in the 1980s, airlines and hotels have adjusted prices minute by minute according to supply and demand. In the past decade, sports teams and musicians have used dynamic pricing for tickets too. (Bruce Springsteen recently drew ire when tickets for his 2023 concerts reached $5,000 as a result of high demand.) Dynamic pricing can be off-putting to consumers (see “The Pitfalls of Pricing Algorithms,” HBR, September–October 2021), but more consumers are becoming used to the model, especially since Uber introduced surge pricing.

5 Use Pricing to Enhance Business Efficiency

Most shifts in pricing models are aimed at attracting or retaining customers and boosting revenue. But introducing a different pricing paradigm can also serve to change customer behavior in advantageous ways. For instance, some industries offer terms such as 2/10 net 30, meaning that customers owe the full amount within 30 days but get a 2% discount for payment within 10 days—a tactic that encourages early payment and helps reduce a firm’s accounts receivable. Here are three more pricing models that can help companies operate more efficiently:

Off-peak pricing. Certain types of businesses—especially those in the service sector—have capacity constraints. They may benefit by setting different prices for peak and off-peak hours. Some restaurants do this with midweek “kids eat free” promotions. Hairstylists, who are especially busy on Saturdays, can even out their schedules by offering lower prices on weekdays. Some movie theaters discount their matinee shows; some gyms offer specially priced plans that limit access during the busiest hours. For businesses that face predictable fluctuations in demand, it’s worth asking: What pricing model might help smooth that pattern?

Subscriptions. Although subscriptions were traditionally associated with certain kinds of businesses, such as newspapers, the model has spread over the past decade. Music from services like Spotify has largely displaced 99-cent songs from Apple’s iTunes, while upscale consumers often subscribe to services like Blue Apron’s meal-kit delivery and Peleton’s online fitness classes. Buyers tend to like subscriptions because they mean low up-front costs and manageable regular payments. Sellers love the fact that most subscriptions work on autorenewal (no need to “close” a subsequent sale) and lead to more-predictable revenue and higher numbers for customer lifetime value. The model is now finding success in other unexpected sectors. For instance, Mammoth Holdings, which owns multiple car-washing businesses, reports that more than 60% of its revenue comes from customers who pay a monthly fee for unlimited washes. Porsche offers a $3,600 monthly subscription that lets subscribers drive any of the vehicles available in its leasing fleet, switching from one car to another at will. Some plumbing companies charge $19.99 a month to maintain home water heaters; this subscription (which is really a warranty paid by the month) covers parts and labor for repairs, or full replacement if the unit fails.

Initiation fees. One problem with the subscription model, particularly when it involves digital content, is that some customers may join for a short time, binge on consumption, and then quickly cancel. I call these people “darters,” and I am one: I typically subscribe to HBO just a couple of times a year, watch entire seasons of my favorite shows in a month or two, and then cancel. Since their inception, country clubs have used up-front initiation fees to prevent people from jumping on and off membership rolls. (Some people call this type of pricing “the country club model.”) Gyms often use this technique too. Any company utilizing a subscription model might also consider initiation fees. Although they do provide revenue, businesses typically implement them to defray up-front costs or to create disincentives for people to cancel. The obvious downside of initiation fees is that they may deter initial purchase—but for companies seeing high turnover among subscribers, it’s a model worth considering.

Identifying and Implementing a New Pricing Strategy

To zero in on pricing models that might work for your business, start with a group brainstorming session. Go through the list of options in the exhibit “A Menu of Pricing Plans” to try to identify ones that might activate new or dormant customers. Ask yourself: Do customers differ in their usage needs? What would help people on tight budgets? Will a discount plan lead to additional purchases? Are customers best positioned to determine the value of an offering? Then consider which of the tactics on the list might be effective.

Even if you’re selling a product or service that does not rely on a traditional sales force, it can be useful to focus on the customer objections an imaginary salesperson might encounter—and then build a pricing strategy that would overcome them. Also look at how various pricing options

The most-promising pricing plans can be pilot tested to gauge consumer interest in real time and then quickly modified to adapt to market response.

might help the business in ways other than generating more sales—say, by smoothing demand or shifting some purchases away from your busiest time.

Once you've identified the tactics with the highest potential, do a cost-benefit analysis. For costs, consider the complexity, time, and investment that would be required to implement the new pricing strategy. When thinking about complexity, don't underestimate the challenge of communicating a complicated pricing change to consumers. In 2011, when Netflix was still renting DVDs by mail while also moving aggressively into digital streaming, the company publicly announced a plan to reprice the service as two separate offerings, with the DVD-by-mail operation renamed Qwikster. The plan might have made strategic sense for Netflix and benefited customers who wanted only DVDs or only streaming, but the complexity—with some subscribers suddenly being asked to create two accounts and pay two fees—sparked a backlash that caused the company's stock to plummet. Netflix quickly abandoned the plan.

After you've done a thorough assessment of costs, assign each pricing tactic a grade from A to F.

Next look at the potential benefits. Start by making a ballpark estimate of the boost in annual revenue, profit, and number of customers that might result from each new tactic. Making these estimates may feel like guesswork, so I advise relying on four methods to forecast the financial upside:

Expert judgment. The people inside your organization have significant experience working with, thinking about, and interacting with your customers about products. Managers with P&L responsibility have a sense of how small pricing tweaks can affect revenue. Salespeople and other employees in customer-facing roles have a deep understanding of your customers' needs and objections. C-level executives may have a vision of particular pricing plans the company should offer. Be sure to tap into the expertise of people at every level.

General market research. Quantitative and qualitative surveys focusing on value and customer satisfaction can yield insights on pricing-related roadblocks to purchase. Are customers nervous about not knowing the final price? Are they interested in making relatively small purchasing commitments? General market research can efficiently provide directional guidance about pricing.

Discrete-choice surveying. This type of in-depth market research involves presenting survey respondents with a slate of pricing options and seeing which they prefer. For example, you might ask participants if they'd rather purchase a product outright or make a partial up-front payment and subsequent installment payments. Discrete-choice analysis can provide insight into the percentage of customers who favor each tactic, and it can be helpful in pinpointing optimal prices. But it's usually more time-consuming and expensive than other types of market research.

Piloting. The most-promising pricing plans can be pilot tested to gauge consumer interest in real time and then quickly modified to adapt to market response. When tried out on a small scale, many of the tactics outlined in this article are low-cost and straightforward to implement. Giant companies like Walmart, for instance, conduct pilots by offering experimental pricing plans in a single store or two. The advantage of such testing over the other three methods is that it captures consumers' actual purchasing behavior—not just predictions about it.

Once you've determined the financial upside of the pricing options you're considering, give each a letter grade from A to F. Then focus on the one or two tactics with the highest grades for both costs and potential benefits.

WHEN A COMPANY thinks creatively and offers customers a new pricing paradigm, the result is an expanded set of customer choices. I refer to this outcome as "Pick-a-Plan." In an ideal world, every person who walks through the door will find a menu of pricing options—including one that feels tailored to his or her needs.

If your company does not have a mix of pricing plans, it has untapped growth potential. There are probably customers out there who would love your product, but they don't like the current options for buying or renting it. Finding a new way to charge them requires imagination and flexibility, but it's an exercise that can pay off handsomely.

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RAFI MOHAMMED *is the founder of Culture of Profit, a consultancy specializing in pricing strategy. His books include* The Art of Pricing: How to Find the Hidden Profits to Grow Your Business *(Charles River Business, 2017).*

PHOTOGRAPH BY SAM KAPLAN

Employers Can Do More to Advance Health Equity

/// They can optimize benefits, address social issues, and expand access to care.

AUTHORS

Shantanu Nundy, MD
Chief medical officer, Accolade

Lisa A. Cooper, MD
Professor, Johns Hopkins University

Ellen Kelsay
President and CEO, Business Group on Health

Jamie Chung/Trunk Archive

IDEA IN BRIEF

THE PROBLEM
The Covid-19 pandemic revealed major disparities in health around the world: Economically and socially marginalized groups have experienced higher rates of Covid-19 infections and mortality.

WHO SHOULD PRODUCE SOLUTIONS
Many business leaders have assumed that governments and health systems are responsible for addressing health inequities, but employers can also play a major role and have compelling reasons to do so.

THE PROCESS
Build a business case for investments. Collect data to understand specific problems. Identify an initial population to focus on. Engage a broad group of stakeholders to design solutions. Measure progress. And commit to advancing health equity.

ONE OF THE STARKEST LESSONS from the Covid-19 pandemic has been the deep health inequities present in the United States and around the world. Nearly everywhere, groups that have been economically and socially marginalized experienced higher rates of Covid-19 and morbidity and mortality from infection. In the United States, before vaccines and effective treatments were widely available, Black and Latino people were three times more likely than white individuals to be infected with Covid-19 and twice as likely to die, according to a study in the *Annals of Internal Medicine*.

Covid-19 wasn't an anomaly. It was a magnifying glass. It exposed inequities that persisted long before the pandemic—in life expectancy, birth outcomes, maternal health, chronic disease prevalence and outcomes, and more.

Covid-19 wasn't an anomaly. It was a magnifying glass, exposing health inequities that persisted long before the pandemic.

There is a silver lining, however. Increased awareness of the problem has led business leaders and employers to ask what more can be done to address health disparities, and many have taken meaningful steps toward improving health equity. In this article we explain why employers should help find solutions and showcase companies innovating in this space.

What Is Health Equity?

The Centers for Disease Control and Prevention defines health equity as the state in which "every person has the opportunity to attain his or her full health potential and no one is disadvantaged from achieving this potential because of social position or other socially determined circumstances." Health equity is a broad concept and is inclusive of a number of groups that are marginalized by society and the health care system and therefore are not attaining their full health potential: people who are Black, Latino, and Native American (who collectively make up 33% of the U.S. population); people who identify as LGBTQ+ (4%); individuals in rural communities (23%); people living in poverty (11%); and people with disabilities (12%).

A multitude of data supports prioritizing the health needs of these populations:

→ Black persons are 30% more likely than non-Hispanic whites to die from heart disease.

→ Native Americans and Alaska Natives have an infant mortality rate that is 60% higher than the rate for their white counterparts.

→ Hispanic women are 40% more likely to have cervical cancer and 30% more likely to die from cervical cancer than non-Hispanic white women.

→ Adults with disabilities are four times as likely as adults without disabilities to report having fair or poor health.

→ Thirty-nine percent of men who identify as gay, 15% of women who identify as lesbian, 20% of men who identify as bisexual, and 15% of women who identify as bisexual report experiencing physical violence, property crime, or attempted crime because of anti-LGBT bias.

A related term is *social determinants of health,* which refers to the conditions in which people are born, grow, live, work, and age that impact their health. Differences in exposure to the social determinants of health are often at the root of health inequities. These include educational and employment opportunities, access to safe environments, affordable housing, nutritious food, access to care, and social relationships and networks—factors that influence health and occur largely upstream of the traditional health care delivery system.

The Business Case for Health Equity

Some business leaders may ask: Why isn't health equity solely the responsibility of the government or the health care delivery system? Why must my business play a role? The short answer is that income, economic stability, workplace benefits such as paid time off and medical benefits, and social conditions in the communities where companies operate are major drivers of health disparities, and employers can play a lead role in addressing many of them. This is especially true in the United States, where approximately 55% of people receive health insurance coverage and additional health benefits such as well-being programs, on-site clinics, and telemedicine through their employers.

Many employers have become attuned to how diversity benefits their businesses. Studies conducted by McKinsey over the years show that companies with the most ethnically and racially diverse workforces or executive teams are more likely to financially outperform others. A BCG study found that companies with above-average diversity had revenues from enhanced or new products or services that were, on average, 19 percentage points higher. But less appreciated is how health inequities can influence diversity efforts and business outcomes. A McKinsey survey conducted in June 2021 found that 30% or more of Black, Hispanic or Latino, LGBTQ+, and younger employees said they had considered switching employers because of their health benefits; employees who reported not receiving the care they needed were two times as likely to consider changing employers.

Inequities in health can also lead to groups of employees missing work more often or being less productive at work. The same McKinsey study found that if employees who are Black, Hispanic or Latino, and Asian were able to meet their own health needs and those of their dependents while missing the same average number of days as white employees, the U.S.

economy could expand by around $20 billion—the equivalent of as much as 10% of the total cost of absenteeism.

Health disparities also contribute to $93 billion in excess medical care costs. Groups that have been economically or socially marginalized often have higher rates of chronic diseases and greater preventable morbidity and mortality—yet they have lower rates of utilization of primary care and mental health services. The result is that a significant proportion of preventable medical costs is spent on providing care to those groups, contributing to the year-over-year increases in health care costs experienced by most self-insured employers and in health care premiums for fully insured employers.

Businesses can positively impact health equity in ways that will improve their businesses and society overall. Beyond investing in diversity, equity, and inclusion, here are the major opportunities for all employers regardless of size or geography.

OPPORTUNITY 1

Optimize Benefits and Health Plan Offerings

Some plan designs may inadvertently exacerbate health disparities. One example is co-payments for emergency room visits. Because people from groups that have been marginalized face barriers to accessing primary care (such as a dearth of nearby providers), they may rely on the emergency room for routine medical care. So cost-sharing efforts may inadvertently worsen health outcomes for employees most at risk of serious complications.

With careful plan design, employers can improve health outcomes. In a randomized clinical trial whose results were published in the *New England Journal of Medicine* and *Health Affairs,* patients from racial and ethnic minoritized groups whose employers covered all the costs of their preventive medications after they had suffered heart attacks had 35% fewer major complications than patients with co-payments, and 70% lower total health care costs.

Plan design changes can also cover out-of-pocket expenditures that are too costly for low-income families yet are proven to reduce health disparities. In 2021, in response to concerns about rising rates of Black maternal and infant mortality nationally, Walmart expanded benefits under its medical plan to include up to $1,000 in coverage for doula services. Doulas provide emotional and informational support and guidance to mothers during pregnancy and birth. Aware of research demonstrating that having a doula on a birthing team decreases C-sections by 50% and the need for other medical interventions by over 50%, Walmart began offering doula benefits in Georgia, where a large proportion of its associates are African American. Encouraged by its early success, it recently expanded the program to Louisiana, Indiana, and Illinois in partnership with the National Black Doulas Association and DONA International.

OPPORTUNITY 2

Address Social Determinants of Health

Decades of scientific research reveal that 80% of health outcomes are determined by income level, educational attainment, health behaviors, and environment (transportation systems, workplaces, schools, air quality, and access to clean water and healthful food). The 2021 McKinsey survey found that 65% of the full-time employees of large U.S. employers had experienced at least one unmet basic need, and 66% of LGBTQ+ employees and 69% of employees of color with a household income of less than $100,000 had experienced two or more unmet basic needs.

All of this suggests that employers should invest in benefits and policies that are not traditionally considered part of medical coverage but that indirectly improve health by addressing barriers to achieving optimal health. An example of such an initiative is the Thrive Local program that Kaiser Permanente launched in Northern California in 2019, which it plans to make available to its 12 million members and to the 68 million individuals in the communities that it serves throughout the United States. The program identifies someone with a social need (such as food, housing, or transportation), refers the individual to a community resource, and tracks the referral to make sure the needs have been met.

Business Group on Health found steps that other employers have taken to address social determinants of health include helping employees pay down their student debt, allowing employees to access earned wages before payday, providing subsidized childcare at work sites, and offering discounted legal services to help employees deal with housing, safety, or immigration needs. For instance, during the pandemic, H-E-B, a Texas supermarket and convenience-store chain, increased pay for low-wage earners and provided employees with free food during lunchtime to address food insecurity and reduce the social isolation that many experienced at the height of lockdown measures. And Walmart's Live Better U program has paid for 100% of

Jamie Chung/Trunk Archive

college tuition and books for more than 52,000 associates and now includes historically black colleges and universities among its academic partners.

OPPORTUNITY 3

Expand Primary Care and Mental Health Access Through Virtual Care and Community Partnerships

Eighty-seven million Americans reside in communities that lack sufficient numbers of primary care physicians and mental health providers. In addition, many more are impeded from accessing care by barriers such as daytime work, lack of transportation, inadequate childcare, and physical disabilities. Because of these and other factors, nearly one in four Americans does not have a primary care physician, and many mental health conditions go undiagnosed and untreated.

Most large employers today offer free or subsidized virtual health services that have the potential to overcome these barriers. However, those services often do not provide comprehensive primary care and adequate mental health services. So it's important for employers to evaluate the virtual services offered by their health plan networks and invest in solutions that offer care that is culturally informed, contextually appropriate, and socially concordant (delivered by clinicians who share a social identity with the employee).

An example of such a service is a "virtual first" model offered by Accolade that United Airlines launched in January 2022 for its employees based at George Bush Intercontinental Airport and their dependents. (Disclosure: One of us, Shantanu, is the chief medical officer of Accolade.) Employees can use a mobile app or call Accolade to have a video visit with one of Accolade's primary care physicians or mental health therapists and to get referred to a range of other services, such as a virtual provider of diabetes care or a physical therapist. Initial data shows that the model is reaching the intended audience: Twenty-seven percent of the employees and dependents who accessed the virtual services had one or more barriers to care (defined as having a low income, a language barrier, limited education, or living in an area with a shortage of health care professionals).

Expansion of access need not be only for virtual services. Employers can also partner with community-based providers that offer access to in-person care. In 2021, Aetna did an analysis of emergency room visits by United Airlines' Newark Liberty International Airport–based employees and their dependents and found that more than 550 visits were for nonemergency reasons, costing these families and the system valuable time and money. An additional analysis by United revealed that 42% of its employees and families in the Newark area experienced either "very high" or "high" challenges in terms of social determinants of health. United and Aetna then created a communications campaign to inform those employees where and when they could obtain alternative care at CVS HealthHub and MinuteClinic locations throughout northern New Jersey.

OPPORTUNITY 4

Make Benefits and Health Care Easy to Navigate

The 2021 McKinsey study found that employees of color were 1.4 to 1.5 times more likely than white employees to find the resources and tools explaining benefits unhelpful, regardless of income level.

Employers can leverage a range of tactics to make benefits easier to navigate, such as using inclusive language and imagery, employing a diverse and representative HR team, and training managers to identify employees with unmet needs and refer them to specific benefits programs. Employers may also choose to invest in a solution that gives employees a single point of contact for all their health and benefits needs. For example, Accolade utilizes health assistants: call-center workers who receive specialized training in helping people understand their benefits, search for in-network providers, and use community resources such as discount prescription programs, transportation options, and food pantries. A slightly higher proportion of individuals who use the service (36%) have language barriers than those who don't (34%), which is notable because the trend at similar health care services is the opposite: Marginalized individuals utilize them less. In addition, half the interventions that Accolade's health assistants perform to improve individuals' health outcomes address a barrier to a social determinant of health.

Navigation services can also help employees find culturally concordant providers. Accenture was an early adopter of a service offered by Included Health that assists LGBTQ+ employees and family members in finding LGBTQ+-friendly practitioners. Accenture says the positive effects of this offering on its LGBTQ+ employees and their families include increased preventive care visits, more-thorough understanding of the benefits as well as approvals required for certain transgender procedures, reduced stress and anxiety in

Inequities in the U.S. health system cost approximately $320 billion annually and, if left unaddressed, could cost $1 trillion or more a year by 2040.

accessing health care, improved productivity, and a boost in employee allegiance to Accenture.

Charting the Path Forward

To improve health equity among their employees and communities, businesses will need to invest in a multiyear effort and equip themselves with the right leadership, resources, and processes. Here are the key steps for getting started:

Build a business case for investment. While many businesses may look at health equity as a societal and ethical imperative, they should also quantify the impact of health disparities on their bottom line to justify their investment. What is the impact of health disparities on medical costs or premiums? What is the cost of absenteeism resulting from them? How would improvements to marginalized populations' experience with care help recruitment and retention? And relatedly, how is a lack of diversity affecting productivity or the customer experience?

Research by Deloitte's Center for Health Solutions and Health Equity Institute published in 2022 found that inequities in the U.S. health system cost approximately $320 billion annually and, if left unaddressed, could cost $1 trillion or more a year by 2040. Deloitte has partnered with the World Economic Forum to launch the Global Health Equity Network, which has worked with more than 20 organizations in health care, life sciences, civil society, finance, technology, and other sectors to understand the impact of health inequities on their businesses. Similar analyses, using tool kits such as one developed by the American Heart Association, can help companies build the business case for sustained investment in addressing health equity.

Collect data to understand the problems. Core to formulating a health equity strategy is understanding the specific health and social needs of your population. Many employers historically have not collected routine data on gender and sexual identity and face limits on how they can use self-reported race and ethnicity data. To address this gap, health and well-being assessments such as annual Health Risk Assessments (HRAs) and employee surveys should be expanded to include self-reported race, ethnicity, gender, and sexual identity along with information on social determinants of health. For instance, the Centers for Medicare and Medicaid Services developed a 10-question instrument that screens for social needs, including housing stability, food insecurity, transportation needs, utility needs, and interpersonal safety that could serve as a useful starting point for other organizations.

To make the collection of this data more acceptable to their employees, organizations should explain the reason for gathering it, make these fields optional, protect privacy, and assure employees that the data will not be used to discriminate.

Identify an initial population to focus on. Prioritizing a specific marginalized community and a specific health problem is more effective than taking a blanket approach to improving health equity at the outset.

Each employer has different challenges and opportunities that should inform which populations and medical and social conditions to go after first. For example, a tech company may have a large population of younger LGBTQ+ employees who need support with reproductive health or transgender care, whereas a manufacturing company may have challenges in ensuring that employees living in rural areas have access to high-quality care.

Companies are more likely to succeed if they focus their resources on clearly defined problems. Walmart chose to prioritize maternal health outcomes because national data showed that Black women in the United States had higher maternal mortality rates than white women; it homed in on Georgia because the proportion of its associates who are Black is higher in Georgia than in other states. United Airlines chose to address challenges that its African American and Hispanic employees in the Houston area faced in accessing health care after studying its own health care utilization trends.

Engage a broad group of stakeholders to design solutions. A core principle in health equity is when designing solutions to a particular problem, you should focus first on the most marginalized individuals with that problem. Solutions that work for them often will work for everyone, but the opposite is rarely true.

In designing solutions to specific problems, employers should get the input of individuals from the marginalized communities in question. One way to do that is to partner with employee resource groups (ERGs). These are voluntary,

> Too often health equity is looked at as a vague commitment rather than as a business problem with defined objectives.

employee-led groups made up of individuals with common interests, backgrounds, or demographic factors such as gender, race, or ethnicity. They often support new hires during onboarding and ensure that diverse employees have an opportunity to be heard, valued, and engaged in company decision-making. Businesses should also consider establishing a community advisory board whose members include representatives of various community organizations and neighborhoods. Taking these steps will help ensure that the company hears from people who might otherwise go unheard.

United Airlines' employee resource groups have played an instrumental role in developing the company's health equity strategy. (Each group—Black, LGBTQ+, multicultural, multigenerational, people with disabilities, veterans, women, and working parents and caregivers—is sponsored by a member of the company's executive team.) As a result of the groups' involvement, United Airlines expanded its initiative to address many more barriers to accessing care than it had originally intended. The groups also helped the company develop effective messaging to promote the initiative.

Measure progress to drive accountability and build momentum. Too often health equity is looked at as a vague commitment rather than as a business problem with clearly defined and measurable objectives. The result is a lack of accountability and, over time, a loss of sustained commitment. The right approach is to start by identifying a set of metrics, establish a clear baseline, set a time-bound target for improvement, and track the metrics regularly. For example, when United Airlines and Accolade launched the virtual-first program in Houston, they agreed to measure the percentage of employees and dependents facing one or more barriers to care who utilized the service each month.

While the ultimate goal is to improve health outcomes, those outcomes are often hard to measure or at least attribute to a specific solution and are actually lagging indicators of success. Instead, employers should use a range of metrics, including those that provide real-time and actionable insights into the effectiveness of their programs, such as engagement and utilization. Where possible, these metrics should be stratified by sociodemographic variables. Engagement, for example, can by examined by race, ethnicity, sexual identity, and ideally, specific social determinants of health such as food insecurity or low wages.

Commit to advancing health equity. To help formulate and communicate a strategy for improving the health of their employees, some employers have already adopted a framework used by many health care systems called the "triple aim" or the "quadruple aim." The former has three overlapping goals for health care improvement and innovation: improved population health, better care experience, and lower costs. The latter adds greater job satisfaction among care providers. We believe a fifth goal—health equity—should be added for two reasons. First, if organizations don't consider health equity, they risk investing in interventions that inadvertently worsen health disparities. For example, co-pays for ER visits may lower total costs of care but at the expense of reduced access for individuals living in areas with a shortage of primary care physicians. Second, if organizations don't consider health equity, they risk ignoring interventions that primarily improve it, such as providing discount prescriptions or access to food pantries. We recommend employers adopt the "quintuple aim" as a framework for making decisions about the design of benefits programs and for communicating to their employees and stakeholders their strategy to advance health and health equity.

THE HEALTH, PRODUCTIVITY, and diversity of employees are key to an organization's success. The pandemic has magnified the wide inequities in health that prevent certain employees from achieving their optimal health. By using a health equity lens and proven strategies to eliminate disparities, employers can improve business outcomes, create a better employee experience, and advance health for all.

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SHANTANU NUNDY, MD, *is a primary care physician and the chief medical officer at Accolade. He is the author of* Care After Covid: What the Pandemic Revealed Is Broken in Healthcare and How to Reinvent It *(McGraw Hill, 2021).* **LISA A. COOPER, MD,** *is the James F. Fries Professor of Medicine and a Bloomberg Distinguished Professor at Johns Hopkins University. She is the author of* Why Are Health Disparities Everyone's Problem? *(Johns Hopkins University Press, 2021).* **ELLEN KELSAY** *is the president and CEO of Business Group on Health and a member of the American Medical Association's In Full Health initiative on health equity.*

SECRETS OF ANCIENT EGYPT – NEW DISCOVERIES

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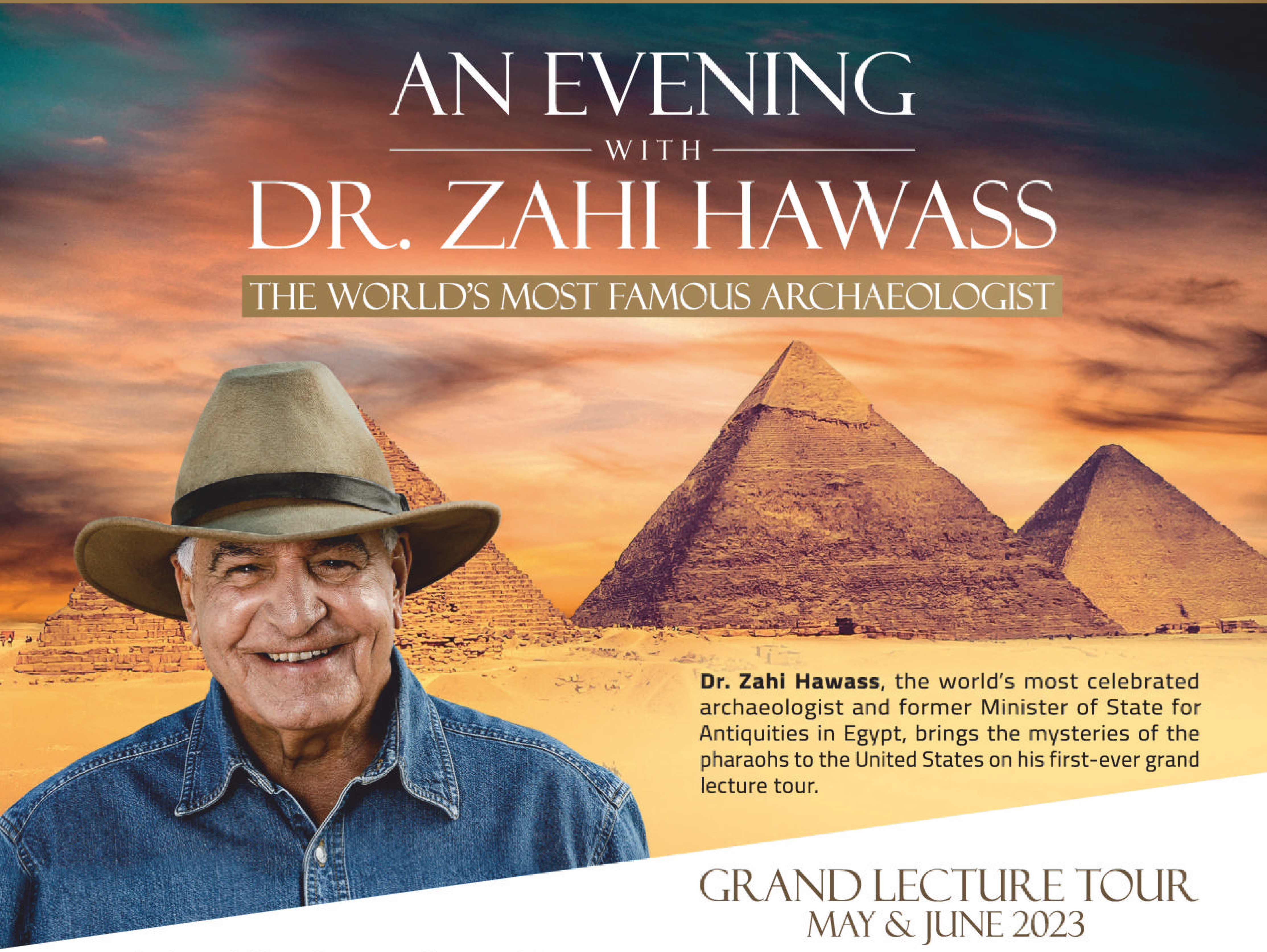

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ORGANIZATIONAL DECISION-MAKING

AUTHORS

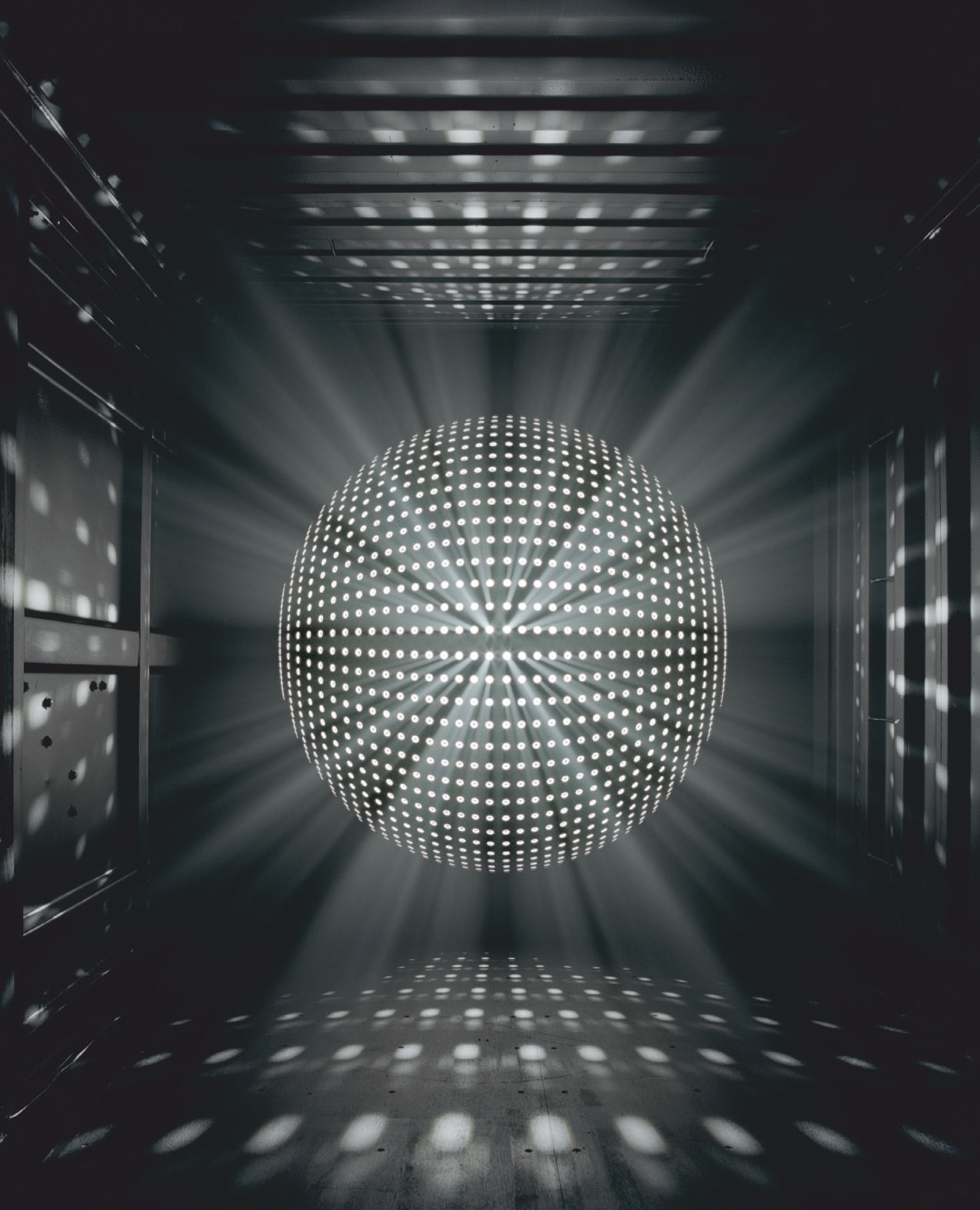
Rita McGrath
Professor, Columbia Business School

Ram Charan
Business adviser

PHOTOGRAPHER **JAMES NIZAM**

The Permissionless Corporation

Technology is empowering employees to make their own decisions. Organizational structures need to catch up.



IDEA IN BRIEF

THE CHALLENGE
Digital technologies are pushing decision-making ability to the edges of the organization, allowing businesses to adopt structures that are flatter and more reconfigurable than those they have traditionally used.

WHY IT MATTERS
When AI and other software make information transparent to all authorized decision-makers on the front lines, directly and without managerial filters, it unleashes their creative and collaborative potential instead of trapping them in endless reporting and coordination loops.

HOW TO FACE IT
To realize this potential, organizations must completely rethink how people work, pay painstaking attention to performance metrics, ensure that information gets to the front line, communicate the context in which decisions are made, and leverage multifunctional teams. Leaders who succeed will be those who understand how to make their people smarter at what they do.

The idea that digital technologies are fundamentally changing knowledge work is not new. We've been talking about the paperless office for decades. But what is less well understood is just how far technology can push decision-making to the edges of the organization, allowing businesses to adopt structures that are flatter and more reconfigurable than those they've traditionally used.

ABOUT THE ART

James Nizam uses light to create geometric forms and sculptures, which he captures through photography through in-camera techniques.

AI and other software can create a single source of the truth and make information transparent to all authorized decision-makers on the front lines, feeding it to them directly and without filters. That means silos and layers can give way to small teams, equipped with all the competencies needed to see a project through from beginning to end. In short, new technology lets managers make decisions and experiment in a decentralized way that enables both independence and accountability at the team level.

Welcome to what Michael J. Sikorsky has called the *permissionless organization*—one that uses digital technologies to unleash the creative and collaborative potential of people rather than trapping them in endless reporting and coordination loops. Its structure has far fewer hierarchical layers. One layer is likely to be customer facing, where teams work with customers and clients. There is likely to be a strategic layer, in which teams determine how strategy, budgeting, project governance, and incentives are aligned; set portfolio priorities; and specify how the organization fits into its legal and regulatory environment. There is also likely to be an operational layer that manages offerings. Finally, there will be a layer that coordinates among the project teams.

Getting to such a structure won't happen through incremental efforts—streamlining a process here or there or taking out a layer of traditional structure. It requires a complete rethink of how people should work, giving careful consideration to how and where digital technologies can be leveraged to make it easier for the people closest to the customer to add value. In the following pages we describe the work practices that make the permissionless organization possible, using examples of companies that are already on the path to transformation.

SWEAT THE METRICS

Modern IT enables teams of people to contribute to, observe, modify, and leverage flows of information, eliminating the need for layers of management to track progress and keep others informed. But to harness IT properly, companies need rock-ribbed discipline. Most companies suffer from "digital sprawl." They store information in a disjointed, incompatible way. According to research by Salesforce, a typical large organization has more than 900 applications running, but only 27% of them are integrated to work together.

Amazon is an exception: It is one of the most ardent implementers of digital metrics, which help teams understand the causal relationship between their actions and their results. The metrics are categorized into two groups: controllable input metrics and output metrics. The input metrics are leading indicators, while the output ones are lagging. Amazon develops new metrics through a process borrowed from Six Sigma called "define, measure, analyze, improve, and control," or DMAIC. Identifying metrics is experimental at first, until causal mechanisms can be established between the leading and lagging indicators.

Colin Bryar and Bill Carr, authors of a book about the company, *Working Backwards,* offer an illustration. In the early days of its expansion from books into other categories, Amazon assumed that the more product detail pages it had on its website, the greater selection customers would have, and that would lead to more sales. The result was an explosion in new detail pages as the retail teams responded to the metric. Unfortunately, all those extra choices did not result in more sales (the output metric). Even worse, when members of the metrics team dug into the issue, they realized that the retail teams were adding items that were not in high demand just to increase the number of pages they posted (their controllable input metric).

As the company learned what would drive the desired result, it adapted its performance metric. Amazon initially measured the number of page views (so that teams didn't get credit for a new detail page if customers didn't view it) but then adjusted it to the percentage of detail page views for products that were in stock (so that teams wouldn't get credit if they added items but couldn't keep them in stock). Eventually it settled on tracking the percentage of detail page views for products that were in stock and ready for two-day shipping, which ended up being called "fast track in stock."

Amazon does this sort of testing and refining for every one of the thousands of metrics it uses to run its business. It's time-consuming to get right, but it allows teams to self-manage using metrics that everyone agrees represent the truth. Once a solid set of measures are in place, a business group enters what Amazon calls the "control phase." In this phase, confidence is high enough that the metric is

In a permissionless organization, teams are given guardrails rather than forced to work their way through tollgates. Approvals are part of the process; they don't stop the process.

capturing the right information that human intervention is needed only for exceptions.

Metrics are discussed at WBR meetings, or weekly business reviews. These meetings begin at the most senior levels, and each level of the organization holds them, informed by the WBR of the level above. Notably, because there is alignment and clarity about what each metric means, the data speaks more or less for itself. The team responsible for a given set of metrics reports on them, and the group determines what actions should be taken to address anomalies.

Business unit leaders are expected to be fully prepared to offer an explanation for why the metrics are deviating from expectations or what the process to figure out the explanation will be. They also examine anecdotal evidence of deviations from norms and expectations that could be leading signals for some emerging trend or important change in the business environment.

BRING THE INFORMATION TO THE FRONT LINE

Another way digital technologies are changing how work is done is with software that simulates real-life situations. Consider the 112-year-old Kone Corporation, which makes elevators, escalators, moving walkways, and automatic doors. About 30% of its revenue comes from providing maintenance services. A company analysis found that something seemingly simple—such as locating a problem elevator on a large campus—could take as much as half the time required for a service call. One of Kone's solutions is to lean on digital representations of real places through building information modeling (BIM). BIM provides a virtual representation of all the characteristics of a building and its site. It is a shared knowledge resource that can be used by anyone who needs to coordinate work on a building—from initial construction to maintenance and remodeling. For instance, should a building owner suspect a leak, he might consult the virtual model of the building in the BIM, figure out where valves are located, and home in on the likely cause before sending someone to the building.

Using its BIM, Kone can now put knowledge right in the hands of the appropriate service person, facilitating faster problem resolution. On-site supervision that at one point needed to be coordinated by a human being can be conducted largely using digital technologies. Using BIM also accelerates tasks such as choosing which components should go into a new elevator and how much space to allow for elevators and escalators, activities that once depended on physical drawings and calculations and later on computer-aided design technologies.

Kone is also using BIM to vastly increase ease of use for architects and building designers. It has made several tools available for free to customers: The "elevator planner" and "escalator planner" allow an architect to enter some simple information about a project, and the system, which consists of 3D-modeling software connected to a database, produces relevant specifications. The Kone Car Designer helps people envision what the inside of the elevator car will look like.

By creating digital representations of physical objects that many team members can collaborate on, BIM reduces the need for coordination meetings and, more important, rework when one part of the specification changes but the impact on the design as a whole is not understood. The system is programmed to identify interdependencies and catches potential problems before they are built into the final product.

COMMUNICATE CONTEXT

People can operate without coordinating functions such as committees, stage gates, and approvals only if they are clear on the context for their work—if they see how their work fits into a larger whole, as well as how their activities are aligned with those of other teams.

Salesforce's alignment methodology, called V2MOM ("vision, values, methods, obstacles, and measures"), is an example of both setting the context and letting technology coordinate activities among interdependent individuals. All employees and teams generate a V2MOM, a document that essentially replaces hierarchy and organizational charts at Salesforce. Each document seeks to answer the following questions.

- ***Vision:*** What do you want to achieve?
- ***Values:*** What's important to you?
- ***Methods:*** How do you get it?
- ***Obstacles:*** What's preventing you from being successful?
- ***Measures:*** How will you know you've been successful?

Salesforce's First V2MOM

In 1999, the story goes, Marc Benioff scribbled Salesforce's original V2MOM, an outline of the company's vision, values, methods, obstacles, and measures of success, on the back of an envelope. Salesforce cofounder Parker Harris reportedly framed the document and presented it to Benioff when the company went through an IPO, in 2004.

VISION

Rapidly create a world-class internet company/site for sales force automation.

VALUES

1. World-class organization
2. Time to market
3. Functional
4. Usability (Amazon quality)
5. Value-added partnerships

METHODS

1. Hire the team
2. Finalize product specification and technical architecture
3. Rapidly develop the product specification to beta and production stages
4. Build partnerships with big e-commerce, content, and hosting companies
5. Build a launch plan
6. Develop exit strategy: IPO/acquisition

OBSTACLES

1. Developers
2. Product manager/business development person

MEASURES

1. Prototype is state-of-the-art
2. High-quality functional system
3. Partnerships are online and integrated
4. Salesforce.com is regarded as leader and visionary
5. We are all rich

The corporate V2MOM document is updated annually and cascaded throughout the organization. That helps each function, team, and individual create one for themselves that captures how their initiatives fit into the larger picture. Annie Ng, a senior strategic enterprise sales director, explains, "Since we create our V2MOMs within our Salesforce platform, everyone can see everyone else's V2MOM at the click of a button! The V2MOM is a living document that's intended to spark meaningful dialogue and inform decision-making throughout the year. Employees engage in conversations with their managers around their priorities on an ongoing basis." In fact, it's considered poor form to ask anyone to work on something that isn't part of his own V2MOM.

SWITCH TO MULTIFUNCTIONAL TEAMWORK

In traditional structures, solving a customer problem often calls for coordinating activities among multiple parts of an organization. Things can move only as fast as the slowest party involved. But imagine creating teams that contain all the needed capabilities and have clear processes for getting help from outside the team—such as support from compliance, legal, and HR. Customer issues would no longer be splintered among different work groups, and everybody could focus on identifying, developing, and implementing the best solution.

In a permissionless organization, teams are given guardrails rather than forced to work their way through tollgates. Approvals are part of the process; they don't stop the process. Permissionless corporations eliminate handoffs as much as possible. Teams use self-service capabilities built by support teams and avoid having to wait to become a priority. Further, they can tap into narrow expertise they don't possess, in areas such as compliance and security. There is no need to go back and forth with people from other units because every unit has the skills and authority it needs to make decisions for itself.

The emergence of remote work on a large scale has brought to the fore a vast number of tools that help coordinate the work of people with multiple talents and specialties. Matt Mullenweg, a cofounder of Automattic, the company behind WordPress and other digital tools, describes how firms can move from conventional working arrangements to ones that allow employees to tap into one another's expertise.

In a podcast, Mullenweg explains the evolution of the typical office from hidebound bureaucracy to high-performing, technology-mediated operation. He frames it in terms of five levels of the journey from a traditional office environment to a tech-enabled "nirvana," a (so far) theoretical end state in which a company's tech-enabled workplace culture is healthier and more efficient than what any in-person working environment could produce.

At level one (the traditional office), work is coordinated by people via meetings and other communication tools such as PowerPoint. Level two mimics that same form of coordination but without everyone together in one place. It's a digital copy of the in-person office, with hours of Zoom calls, the expectation that everyone will work to the same schedule, coordination by people—or even worse, by surveillance technology—and the expectation that career progress involves some level of promotion up a hierarchy.

Companies move beyond level two when they start to deploy tools that allow many people to coordinate activities across distance and disciplines. New tools—chat and messaging apps, different mechanisms for visual conversations, and various collaboration platforms—are widely used in level three.

At level four, the organization enters a phase Mullenweg calls “async,” in which it rethinks how work gets done in order to use technology to achieve coordination and alignment. Transitioning to async involves making key shifts in both the technologies used and the process design. For example, people move from email and instant messaging to task boards that are updated in real time. And instead of convening meetings on an ad hoc basis, teams set aside blocks of time for open hours during which they are free to meet. (See the exhibit “Toward Organizational Nirvana” for a summary of the shifts involved.)

Operating at the async level relies more heavily on carefully crafted written communication than on the casual conversations of a traditional office. That offers advantages in that neurally different and physically disabled workers can participate effectively, increasing the pool of talent an organization can tap into. As Tiffani Bova, sales innovation evangelist at Salesforce, tells us, her company is finding that operating in async mode is enlightening and successful.

Of course humans are social creatures, so even in distributed working environments there is a need for bonding and trust. Automattic fosters them by letting employees work remotely for 11 months but reserving the remaining month for in-person events. Technology developed at the company tracks who knows and is connected to whom to facilitate in-person interactions (as opposed to random networking). While Automattic’s solution emphasizes dispersed working, conventional organizations that seek to use technology to work in a new way could apply similar principles.

Toward Organizational Nirvana

Achieving asynchronous work practices, the final step before reaching the theoretically ideal work organization identified by Automattic cofounder Matt Mullenweg, requires companies to make the following shifts in technologies and work processes:

FROM	TO
Email, instant messages, and texts	Task boards, visible to all, updated in real time
Indiscriminate booking of meetings	Office hours with time for deep work and open hours during times that suit the most people
Sending around documents and trying to manage version control	Sharing documents that people can update collaboratively in real time
Metrics captured by traditional mechanisms, mostly lagging indicators	Leading indicators captured digitally as work flows through the system
An expectation that everyone needs to be present in some way to achieve coordination	An expectation that most work can be conducted asynchronously with joint presence reserved for when it adds unique value

LEADING THE TRANSFORMATION

Re-architecting a company to capitalize on digital breakthroughs requires determined leadership. The change will be an enormous disruption in a social system. Those who enjoyed the perks of the former environment are likely to resist. The flatter hierarchies of revamped organizations will require a new definition of what career progress is. It may now stem more from an increase in skills and capabilities than from a hierarchical promotion.

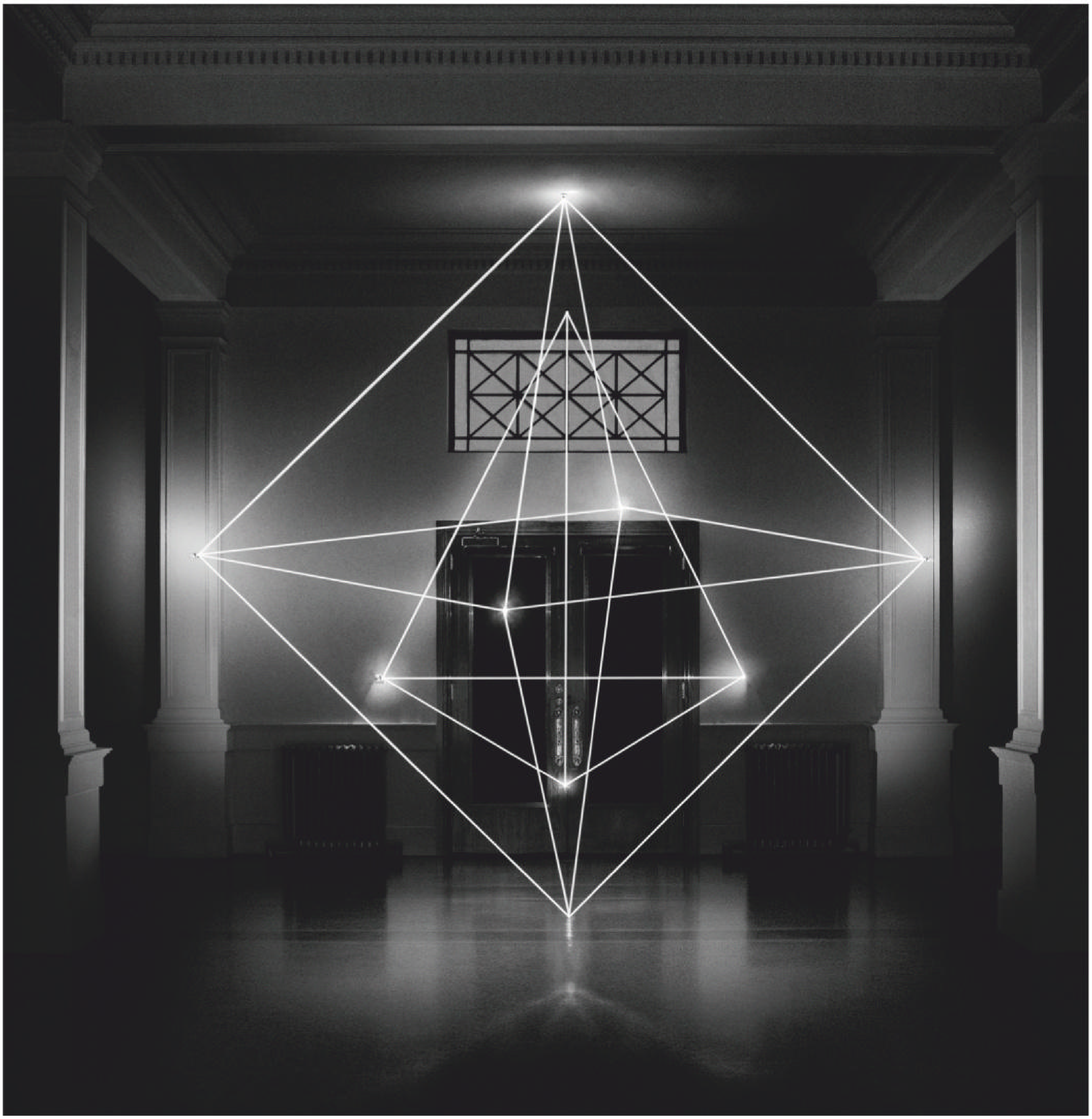
A good example of how to overcome such challenges comes from Kathleen Murphy, the former president of Fidelity Personal Investments. She explains her reasons for joining the group in 2009: “One, putting the customer first. Two, there was so much possibility to transform how financial services are delivered. Three, the people here. The team is so important to me. I…was always really impressed by the values of the firm.”

By 2014 she was overseeing 15 million customer accounts, 12,000 employees, and more than $1.7 trillion in customer assets. But despite great results she had a sense of unease about the future. Fintech start-ups were nibbling away at the structure of the entire banking sector. As she puts it, “Disruptors were entering the space with a fresh perspective about what clients really value and how to simplify the overall customer experience using digital capabilities.” She felt that the company had become way too focused on products and was not keeping up with what customers were experiencing.

She reached out to us for help addressing these issues, and so began what proved to be a radical transformation at Fidelity. The process had several stages.

1 **Find the problem.** Murphy began by diagnosing how people worked. She asked two of her direct reports to analyze how each person in one of Fidelity’s business units was spending his or her time. The first insight was that

The flatter hierarchies of revamped organizations will require a new definition of what career progress is.



> When people saw that leaders weren't going to be promoted on the old metrics of command-and-control, they began to trust that the new system was there to stay.

the hundred or so people in that unit were each working on 10 different things at any given time. And those 10 things differed from person to person. Moreover, each project involved multiple people who needed to coordinate with one another, which meant a significant amount of time was spent on meetings just to make sure everybody's activities were aligned. People in "business analyst" roles coordinated activities among the people working on digital systems projects and the people with information about products and customers. Information was passed along when someone completed his part of the project in a sequential manner. And worst of all, the functional silos meant that an idea could be very far along before critical units such as marketing were brought into decisions.

2 Set up a pilot. Following these findings, Murphy instituted a pilot program in 2016, which adopted some of the practices we've described. One of the unit's groups was broken into small teams. Each included representatives from all the functions whose expertise would be required. And most important, each team had just one customer objective to focus on, and it would manage an entire project from start to finish. Murphy insisted on candid, direct communication among team members. As she explains, "Too often in big companies, bureaucracies grow up, and there's the meeting before the meeting and the meeting after the meeting. They sand down the direct communication. We want to make sure we are attacking the exact issues and moving forward together to solve those problems. If you don't have candor, you can't move as quickly solving those problems." The success of the pilot led to a small rollout. Eventually, it became the way the whole division worked.

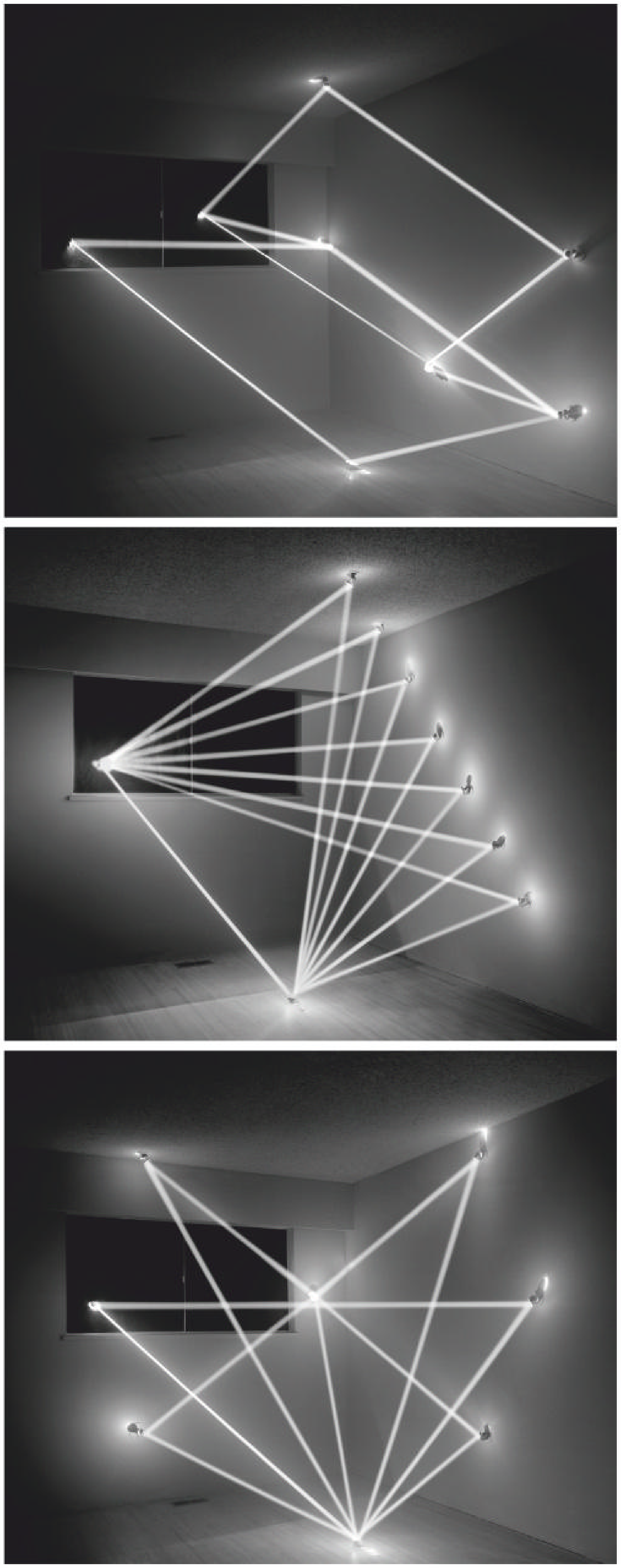
The early results of this approach were astonishing: Compared with the conventional model, the integrated teams reduced the time it would normally take to deliver a feature by 75%. Spurred by this success, Murphy converted her entire division to working in this manner; team assignments were driven by customer insights, decisions were made within the teams, and many coordination and approval steps were eliminated. At any one time there could be as many as 187 groups of people with decision rights. This system replaced a system of control in which there could be as many as eight organizational layers. The number of layers collapsed to three, even as the number of decision-makers increased dramatically. The number of teams could be expanded or contracted according to need, which had not been the case before.

3 Look for leaders who make other people smarter. Using the leadership expert Liz Wiseman's framework of multipliers and diminishers, Murphy gave leadership responsibilities to those who exhibited "multiplying" behaviors—meaning that they amplified the skills of everyone around them (as opposed to "diminishing" behaviors, which drain energy and discourage followers from contributing). When people saw that she really meant it—that leaders weren't going to be promoted on the old metrics of command-and-control, they began to trust that the new system was there to stay.

Not everyone was overjoyed. People who measured their career progress in terms of hierarchy were dismayed by the flattened organization. People who couldn't let go of their command-and-control tendencies were not effective facilitators of permissionless teams. So Murphy had to find new roles for them elsewhere in the company or let them find jobs outside it.

4 Communicate, communicate, communicate. Murphy devoted an enormous amount of time to answering questions and communicating why the change was important. For example, in a weekly global webcast called *Stand and Deliver,* she invited anyone in the organization to ask her questions, which she answered with candor. In one of the sessions she was asked what the plan was if this didn't work. She recounts, "I said simply, there is no Plan B. I used the story of burning the boats to emphasize my commitment and conviction. It was important for everyone to know we were 'all in' at the leadership level. Half measures and hedging weren't going to drive a fundamental digital transformation. No Plan B. Make Plan A work."

The new structure led directly to market-defining innovation, such as the 2018 launch of Fidelity Zero, a set of index funds with no fees. Fidelity Zero was possible because the products were relatively inexpensive to offer, given the company's digital infrastructure, and provided an entry-level route for new customers, especially younger ones, to become



part of Fidelity's ecosystem. As Murphy explains: "It's not about necessarily wanting to make money on every transaction; it's about sharing value and essentially hoping that they will turn to Fidelity over the course of their lifetime. I regard zero-fee mutual funds as an investment in our client base and a way in particular for younger people to get started on investing."

As Murphy's story demonstrates, customer-centric decision units can be positioned without any layers between them and the customer. Each unit can determine the right mix of resources, budgets, decision rights and rules, and key performance indicators within a clearly defined strategic context. A combination of sensors and metrics allows performance to be self-managed and course corrections made without managerial intervention. The approach can be applied across decision units, wherever there is a need for no layers between a unit and the final recipient of its outputs. It is a foundation for high-quality and timely decision-making. Murphy's group was able to do it. Yours can too.

IN THE PERMISSIONLESS corporation, fast, inexpensive experimentation takes over from slow, involved analysis, enabling organizations to pounce on opportunities as they arise. And at a time when speed and adaptability, rather than predictability and consistency, are the main sources of competitive advantage in a product-centric world, a model that allows people close to the customer to make as many decisions as possible is valuable. Companies with three or four layers, faster problem-solving, and a permissionless mindset will outcompete traditional players with 10 layers and slow decision-making processes. In fact, though it may take time, we anticipate that organizations that operate in the traditional way will eventually cease to exist.

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RITA MCGRATH *is a professor at Columbia Business School and a globally recognized expert on strategy in uncertain and volatile environments. She is the author of, most recently,* Seeing Around Corners *(Houghton Mifflin Harcourt, 2019).* **RAM CHARAN** *advises the CEOs and boards of some of the world's biggest corporations and serves on seven boards. He is the author or coauthor of many books, including the best-selling* Execution: The Discipline of Getting Things Done, *with Larry Bossidy (Crown Archetype, 2002).*

Managing in the Age of Outrage

PHOTOGRAPHER
KEN HERMANN

As societies become angrier, managers must condition themselves to respond sensitively.

AUTHOR

Karthik Ramanna
Professor, Oxford University

BUSINESS & SOCIETY

BUSINESS & SOCIETY

Leaders in every sector are now dealing with angry stakeholders.

Witness the crisis confronting government officials in Ottawa in early 2022, when the city was blockaded by large numbers of Freedom Convoy truckers protesting Covid-19 vaccination requirements. At the same time, customers and the media were pressuring GoFundMe, TD Bank, and others to cut off donations to the protesters. Even a low-key organization can find itself suddenly coping with outrage from both employees and external stakeholders.

Managing angry stakeholders is nothing new. What sets apart the times we live in is a perfect storm of three forces. First, many people feel unhopeful about the future, for reasons ranging from climate change to demographic shifts to wage stagnation. Whatever the cause, they believe the future will be worse than the present. Second, they often feel—whether rightly or wrongly—that the game is rigged and they have been treated unfairly. Consider, for instance, reports that the wealthiest often pay taxes at lower rates than the middle class does, or evidence of systemic bias in the opportunities available to minorities. Third, many people are being drawn, perhaps as a result of the first two forces, to ideologies of "othering"—that is, away from Enlightenment liberalism and toward an us-versus-them approach. The historian Samuel Huntington called this "the clash of civilizations."

In this article I offer a framework for managing stakeholder outrage that draws on analytical insights from disciplines as wide-ranging as the science of aggression, managerial economics, organizational behavior, and political philosophy. It forms the basis of a course I teach at Oxford, "Managing in the Age of Outrage," and has been built inductively through deep-dive case studies on organizations from multiple sectors, including IKEA, the London Metropolitan Police, Nestlé, and Oxford University Hospitals. The framework has five steps: *turning down the temperature, analyzing the outrage, shaping and bounding your responses, understanding your power to mobilize others,* and *renewing resilience.* Some steps are relatively complex, others fairly simple, but all involve a good measure of common sense, and nothing that follows should be wildly revelatory to seasoned managers. The value of the framework lies in its consolidation of insights.

IDEA IN BRIEF

THE PROBLEM

Leaders in every sector are now dealing with angry stakeholders. Witness the crisis confronting government officials—and associated businesses—in early 2022, when Ottawa was blockaded by truckers protesting Covid-19 vaccination requirements.

WHY IT HAPPENS

We are experiencing a perfect storm of three forces: Many people believe the future will be worse than the present. They also feel—rightly or wrongly—that the game is rigged and they have been treated unfairly. And they are increasingly drawn to ideologies of "othering."

THE SOLUTION

Drawing on real-world case studies and on disciplines including psychology, economics, and philosophy, this article offers a framework for managing outraged stakeholders that includes five steps: turning down the temperature, analyzing the outrage, shaping and bounding your responses, understanding your power to mobilize others, and renewing resilience.

Research suggests that we interpret events through mental “scripts,” which are developed from and reinforced by prior experiences.

[**STEP 1**]

Turning Down the Temperature

This step involves two actions. The first is simply acknowledging the clinical bases of outrage. The second is observing processes for engagement that stakeholders have ideally agreed upon *in advance of* situations that raise the temperature.

Clinical bases of outrage. The behavioral science of aggression is a voluminous field. A key managerial insight is that the interplay of ambient conditions, emotions, and cognitive reasoning shapes the mind’s response to situations.

To begin with, the science shows that physical environment matters: We are more likely to lose our tempers in a hot and humid room than in a well-ventilated one. Next, we know that when our cognitive-reasoning resources are limited, emotions are likely to drive our actions. A busy or distracted brain tends to react emotionally, and thus aggressively (as part of a fight-or-flight response), in a crisis. Hence the advice to “sleep on” charged decisions, to allow time for reflection. An emotional response is not always bad, but our cognitive faculties should be given time to process an initial one.

Finally, research suggests that we interpret events through mental “scripts”—heuristics for how we think the world works. These scripts are developed from and reinforced by prior experiences, and even seemingly irrational scripts may become part of our cognitive response. For instance, repeated exposure to biased narratives on social media can influence scripts over time, contributing to outrage.

Shared processes. Providing comfortable ambient conditions for debate and time for reflection on initial emotional impulses is relatively straightforward. But what can you do about differing scripts? Given that you have no control over the experiences that have shaped an individual’s deep-seated script, it is best to avoid directly challenging it. You may not see it as legitimate, but you are unlikely to change it—certainly not in one sitting. You can, however, create a nonthreatening space where your stakeholders can explicitly render their scripts. Doing so can be cathartic and a first step toward building an understanding on which sustainable solutions rest.

One of my responsibilities at Oxford’s Blavatnik School of Government is to convene public leaders from more than 60 jurisdictions (including China and the United States, India and Pakistan, Israel and Palestine, Russia and Ukraine) to build coalitions on divisive issues such as climate change, migration, and inequality. Diverging scripts are endemic to our setting.

To keep our community functioning and even thriving, we have developed and agreed in advance on our rules of engagement. That is crucial, because you cannot seek legitimacy for a process you are already using to address a contentious issue. As a manager, you should take the time to identify your key stakeholders and seek their commitment before you get into firefighting mode.

Our community rules are simple: No one may claim that a script is too offensive to be heard, but all must be accountable for how their words land on others. That second point sets up community members to aspire to be leaders rather than simply debaters. It prompts all stakeholders to temper their communications, not in self-censorship but with the hope of gradually helping others understand (even if not agree with) their worldview. And by encouraging community members to share their scripts in the context of their own biases, we are more likely to generate collective decisions that withstand the passage of time.

[**STEP 2**]

Analyzing the Outrage

Sharing and reflecting on scripts across your stakeholder community takes you to the second step, which also has two parts.

Causal analysis. In June 2020, as London emerged from a three-month lockdown, Cressida Dick, the commissioner of the London Metropolitan Police, faced backlash from Black Londoners who, it was revealed, had been subject to the Met’s heavy use of stop and search at a rate four times that of other groups. Dick, much of her own force, and victims of (rising) crime saw stop and search as a useful deterrent, but many Black residents of the city wanted the policy ended. Protesters pointed out that this group was more likely to be in essential service operations and thus more likely to be on the streets during lockdown. Since the rates of actual arrest were similar across demographics, there seemed little reason to “target” Blacks. Activists therefore demanded that Dick acknowledge that the Met was “institutionally racist.”

In responding to a situation like that, you need to identify which of the three drivers of outrage is in play: despair about the future, feeling that the game has been rigged, or an ideology of othering? Managers have some scope for engaging with the first two: They can provide reasons to become more hopeful about the future, and they may be able to address why stakeholders feel cheated. For example, anger at the Met's lockdown use of stop and search could be examined in the context of Londoners' long history of experiencing policing as biased against minorities. Official reports had criticized such practices as far back as 1981 and 1999. That history provided Dick with a starting point: To build trust with disenchanted citizens, her actions would need to at least improve on the Met's responses from 20 years prior.

But if the outrage can be traced to ideologies of othering, avoid direct engagement. It risks throwing fuel on the fire, diminishing the prospect of a resolution. That was the mistake government officials made during the Freedom Convoy blockade in Ottawa. They realized that although some truckers had defensible political demands, others saw the protests as a means to achieve exclusionary social ends. By taking on those ideologies and branding the truckers as "racists," the officials only inflamed the protesters (inviting more racists to the melee) and reduced the potential for negotiating an end to the blockade (because they could not be seen as doing business with racists).

My point here is not to deny managers their personal ideologies (and right to be offended) but to caution that direct engagement with stakeholders over ideological differences is unlikely to be effective. Avoiding such battles keeps a polarizing situation from escalating and may buy time for a bottom-up resolution to emerge.

Catalytic analysis. The objective here is to identify the forces contributing to the intensity of stakeholder outrage. They may be people or events, and they may provide

ABOUT THE ART

In collaboration with the art director Gem Fletcher, Ken Hermann photographed practitioners of Bökh, a traditional form of Mongolian wrestling that dates back to the reign of Genghis Khan. Originally developed to keep soldiers battle-ready, Bökh is often reminiscent of a dance.

a pathway for mitigation. In the Met's summer 2020 case, catalyzing forces included the murder of George Floyd in the United States and the unfavorable comments of some Black Met officers about stop and search. Those officers gave Dick a credible counterparty to work with in seeking longer-term solutions to the outrage.

Social media often channels catalyzing forces. It can provide anonymity, enabling otherwise circumspect individuals to express extreme views. Seeing such views encourages others to embrace, reinforce, and even sharpen them, a phenomenon known as *emotional contagion*. Social media algorithms also draw users deeper into outrage by shielding them from critical perspectives. Encouraging counterparties to tone down their social media engagement during discussions is therefore a good idea. (Again, rules of engagement should ideally be established before you apply them.)

[STEP 3]

Shaping and Bounding Your Responses

With some understanding of the drivers of outrage, managers can consider how to respond. Here they must strike a balance between not doing enough and doing too much. Considering the following two concepts can help.

Asymmetric capabilities. In 2015 the food giant Nestlé faced a threat to its 100-plus-year presence in India when a routine test in a government food-safety lab found traces of monosodium glutamate (MSG) in its instant-noodles product Maggi, despite claims on the packaging that the noodles contained no added MSG. At first Nestlé ignored the issue, convinced that its practices were sound. Because about 75% of India's processed-food suppliers are small-scale domestic producers that routinely misstate their labels and have lower safety standards than Nestlé does, the company did not feel exposed to regulatory risk.

But later tests from other government labs indicated high levels of lead in Maggi noodles. The product, marketed as a health food and targeting children, came under further scrutiny. Nestlé then explained that although "no added MSG" was technically true, the product *did* contain naturally occurring glutamates. Regarding the lead content, Nestlé asserted that its own tests in India, Singapore, and Switzerland had confirmed the product's safety, and it conjectured that the later findings were a result of poor procedures at government labs. Its responses did not sit well with officials, some of whom issued regional recalls of Maggi noodles. The press piled on, and Nestlé's nearly 80% market share in instant noodles in India halved almost overnight, contributing to a 15% drop in stock price. Eventually, and at great cost, Nestlé withdrew and then relaunched the product without the label "no added MSG." (The lead concerns, it turned out, were indeed unfounded.)

The Swiss giant was expected to take responsibility for problems not of its own creation, even as more-culpable violators escaped, in large part because it had better *capabilities* than others to remedy the problem. In similar situations, therefore, managers need to consider four questions: (1) Are we directly responsible for the outrage? (2) Will our inaction exacerbate it? (3) Is acting to alleviate the outrage part of our (implicit) contract with stakeholders? (4) Do we want it to be?

Only if the answer to all four questions is no should you not act. For Nestlé the answer was no to the first, because it viewed the trouble as originating in regulatory inconsistencies. But its answers to the other three questions revealed that the company had good reason to act.

Take question two. Lead poisoning is very dangerous for children, and Nestlé's response left the matter unresolved. But ignoring looming serious harm to others invites outrage. Bioethicists' *rule of rescue* helps here: Our ethical instincts encourage us to aid those in imminent grave danger (regardless of culpability), even if we are held to a lower standard when the danger is less proximate. We are more impelled to help someone drowning in a pond than someone losing a livelihood to gradual flooding.

As for the third question, even in cases where the harm may be moderate and distant (as with the MSG issue), prior statements (describing Maggi noodles as a "health" product) may have set an organization up to address stakeholder concerns that it did not create.

For the fourth question, consider the advice offered by the Harvard professor Fritz Roethlisberger: When faced with a crisis, we often lament it as unfairly altering our otherwise well-drawn plans for the future. But what if that crisis is an

Instead of complaining that a crisis is derailing you, treat it as an opportunity and lean in to your aspirations to shape your response.

opportunity to *actualize* those ambitions? Instead of complaining that a crisis is derailing you, treat it as an opportunity and lean in to your aspirations to shape your response. For Nestlé that could have meant using the Maggi crisis to affirm an inviolable commitment to safety.

Having determined an imperative to act, a company's next challenge is to ensure that it goes no further than necessary. Otherwise it may set unfulfillable expectations that can sidetrack the organization from its core mission or even bankrupt it. That brings us to the second concept.

Shifting expectations. In 2012 the Swedish furniture behemoth IKEA was attacked in its own national media by an article revealing that it had airbrushed out images of women from direct-to-home catalogs circulated in Saudi Arabia. The company claimed that it was complying with Saudi laws and that the practice was long-standing.

The backlash in Sweden and IKEA's major markets in Western Europe, which accounted for 70% of sales, was swift. One Swedish minister commented, "For IKEA to remove an important part of Sweden's image and an important part of its values in a country that more than any other needs to know about IKEA's principles and values—that's completely wrong." The comment hit on an important truth: For years the company had branded itself as an extension of Swedish culture. A visit to the local IKEA, infused with Scandinavia-inspired kitsch, was like a trip to Sweden.

Over the years, IKEA had profited handsomely from that strategy, and it had mostly honored Swedish values: In the early 2000s, before ESG became fashionable, the company made commitments to fair labor and responsible environmental practices in its supply chain. As far back as the 1990s it had run commercials featuring same-sex couples. For a company that had long positioned itself as an exemplar of Scandinavian progressivism to be removing images of women from its Saudi catalogs was jarring.

IKEA entered Saudi Arabia in the early 1980s, shortly after the country's ruling family had thwarted a challenge to its power from radical Islamists. Having seen Iran's imperial family toppled for being too Western, the Saudi rulers chose to appear more hardline. But 30 years later Saudi Arabia was a different place; in fact, even the Saudi media was bemused by IKEA's policy. Meanwhile, Scandinavian culture had become even more progressive. Expectations had shifted.

To avoid the adverse consequences of such shifts, an organization that makes a moral commitment, explicit or implicit, to its stakeholders must repeatedly ask itself three questions, which serve as a reality check for entities under pressure: (1) What is our strategy for authentically meeting this commitment? (2) What are the boundaries of this commitment, and how have they been communicated to stakeholders? (3) What is our strategy for dealing with shifting expectations around this commitment?

Through successive decisions involving its brand identity, IKEA had made a moral commitment to its stakeholders, in Sweden and in the rest of the West, to be a champion of Swedish values. The company had thought its commitment would be bounded by the laws of countries where it operated—but it had not effectively communicated that to its stakeholders. And IKEA was unprepared for the fact that as Swedish values became increasingly liberal, more would be expected of it.

Similar issues were at play in the London Met. Some stakeholders had argued that Dick's labeling the Met "institutionally racist" would powerfully signal its commitment to be part of the solution to racial injustice in society. The Met did not bear full responsibility for the outrage, but it had asymmetric capabilities for healing it. Nevertheless, Dick demurred. For the Met's own commissioner to accept the label would be politically seismic, and it would shift some stakeholders' expectations beyond her capacity to deliver. In addition, many within the Met considered the label demoralizing and offensive, and the commissioner could not afford mass exits or internal protests at a time of rising crime.

As that case shows, employee sentiment is a good way to evaluate possible responses to such quandaries. If trusted employees feel that you are not doing enough to address (external) stakeholders' outrage—or, conversely, fear that you might do too much—it is a good idea to rethink your approach. This, of course, underscores the value of giving your employees—who ideally are representative of other stakeholders—space to voice their perspectives.

Although the proportion of nonwhite officers at the Met had grown fivefold in the 20 years leading up to 2020, it still stood at only 15%—considerably lower than London's overall 40%. Until the Met became more representative of the community it sought to police, it would be unable to shake off

the label “institutionally racist.” So Dick made it a priority to rethink how the Met recruited and retained talent from the communities that trusted it least.

[**STEP 4**]

Understanding Your Power to Mobilize Others

After determining what you will do in response to the outrage, you must decide how to get it done. This is a two-stage process. First identify the sources—internal and external to the organization—of your ability to mobilize others: a spatial mapping of your power. Then ask how your power will evolve as you exercise it: a temporal mapping.

Spatial mapping: where power comes from. It helps to divide power into four categories.

→ ***Coercive power*** is the ability to control others’ actions through command. It may derive from your hierarchical authority and your ability to control scarce resources, such as by hiring, promoting, and firing individuals. It is the most basic source of managerial power, but it varies across types of organizations: Managers in nonmilitary public-sector bodies generally have less coercive power than do managers in private companies.

→ ***Reciprocal power*** is derived from exchanges. It can be purely transactional, as with a manager’s power over an independent contractor in exchange for cash, but it does not have to be so. For example, no quid pro quo is necessarily expected in a social network, where power accrues from the *perception* of reciprocity. The greater your commitment to the exchange setting, the greater your power, because deep ties—forged over many years and interactions—are more likely to mobilize people.

→ ***Emotive power*** emanates from personal charisma. Like reciprocal power, it is based in relationships, but an exchange is rarely expected. Parents and children have emotive power over one another, as do people who share a deeply held faith.

→ ***Rational power*** is the ability to provide a reasoned (logical and evidentiary) explanation of your goals and methods. Managers often use it to bring well-informed peers on board.

To illustrate how spatial mapping can be helpful, consider the challenge confronting Meghana Pandit, the chief medical officer of Oxford University Hospitals (OUH), in 2020, early in the Covid pandemic, when scientists were uncertain about the virus and how to manage it.

The UK government had announced that elective surgeries should continue in OUH and other public hospitals. The goal was to prevent a huge backlog when the pandemic eased. Fearing shortages of personal protective equipment, some surgeons at OUH refused to comply, arguing that the order put their lives at risk. Pandit had to decide whether to enforce it and risk exacerbating an already emotionally fraught situation.

Although it is among the world's top hospitals, OUH had a checkered recent history. In 2018 it had reported eight "never events"—critical safety failures, such as wrong-site surgery, that should *never* happen. And staff surveys had shown that although many people took great pride in their own performance, teamwork was lacking, management was seen as not supporting staffers when mistakes were made, and the organization had a tendency toward both risk aversion and disregard of risk-management processes. The UK's Care Quality Commission had assessed OUH as "requiring improvement."

In early 2019 the OUH board appointed Pandit, who was then the chief medical officer at another hospital in Britain, to lead. Her focus through that year had been to reset the OUH culture toward patient safety and satisfaction, learning from mistakes, and trust in management. The initial results were promising, but the job was far from done when the pandemic hit and she was faced with the surgeons' resistance.

In that situation Pandit had considerable coercive power. She had final say over licenses to practice at OUH, so she could certainly enforce the government's order to continue with elective surgeries. She also enjoyed some rational power: As the surgeons' medical peer, she could speak with authority about the merits of the order as well as the Hippocratic ideal that the hospital was expected to achieve.

But Pandit lacked emotive power. As a woman and a member of an ethnic minority, she was outside the old boy network of Oxford physicians. They were unlikely to be swayed by her charisma. She also lacked reciprocal power of the transactional kind: As a public entity, OUH could not set salaries and bonuses; those were largely determined by national pay scales. And although Pandit was cultivating reciprocal power of the relational kind through the culture-change initiative, her efforts were only just beginning to take hold.

Despite her limited options, Pandit chose not to enforce the order, deferring to the surgeons in their moment of anxiety. The next stage of step four explains why.

Temporal mapping: how power evolves. If Pandit had enforced the order, she would have risked eroding the small gains in reciprocal power she had recently earned and would most likely have made any further accrual impossible. Her cultural transformation depended on building staff members' trust in management; clamping down on their concerns at a time of great medical uncertainty would hardly help. In effect, Pandit was trading off short-run risks (invoking the government's ire and emboldening recalcitrant staffers) for a potential long-run win (a hospital with zero "never events").

She also wanted to preserve her coercive power for a time when she might truly need to use it. In March 2020 nobody had any sense of how long the pandemic would last, how severe it would be, and what kinds of command decisions it would necessitate. To expend that power so soon could prove very costly.

As you map the evolution of your power, consider the three basic ways in which it can be exercised: *implicitly,* through organizational culture; *indirectly,* through control of the agenda; and *explicitly,* through direct engagement (by yourself or by others acting for you). In general, the first approach is preferable to the other two, because effecting outcomes through shared beliefs can strengthen power, whereas the other options can erode it. But considering the feasibility of each way can guide you toward a decision.

If Pandit had been further along in her cultural transformation, the surgeons might not have even threatened revolt, because they would have trusted management to do right by them. But we cannot choose when crises will hit, and Pandit had to look for other approaches. The next obvious one was controlling the agenda. In March 2020 Pandit had many problems on her plate beyond the surgeons' concerns. They included setting up quarantined Covid wards, training medics to triage incoming patients for access to scarce ventilators and ICU beds, determining which hospital departments would have access to scarce protective equipment and Covid testing, crafting policies regarding staff leave to ensure a continually refreshed team on site to deal with the expected surge in patient volumes, and so on. By prioritizing those issues over the surgeons' anxiety, she could have implicitly conveyed a decision to them. But she feared that gaming the agenda in that way would undermine trust.

Instead she decided on direct engagement. But because she wanted to preserve her coercive power and had limited reciprocal power, she asked the surgeons for guidance on how to handle their situation. In effect she relinquished her coercive power to them, making them her agents. Her gamble paid off: Realizing from the perspective of power that their worries were but one ripple in a quickly swelling sea, the surgeons backed down. Roethlisberger's advice comes alive in Pandit's decision: She reached into a future version of OUH—one with a more trusting culture—to generate a solution to the present crisis.

[STEP 5]

Renewing Resilience

Admittedly, navigating the framework I have presented is demanding. Thus renewing resilience, organizationally and individually, is itself part of the framework. By "resilience" I mean the ability to recover from negative shocks. It includes, critically, a capacity for being intelligent about risks and associated failures.

Organizational resilience. This comes from distributing decision-making responsibilities among trusted and competent delegates situated close to realities on the ground. It requires what economists call "relational contracts"—implicit understandings between managers and employees about the values that will guide each side's decisions and reactions to the decisions of others. Toyota offers a good example, specifically with its andon cord. Workers on the assembly line are encouraged to pull the cord if they notice a possible systemic manufacturing defect, stopping the entire process at great expense.

There are no explicit rules about when to pull the cord. If it were possible to specify any, then the cord would be unnecessary, and low-cost reliability would not be as elusive as it is. Instead, line workers and management have an

> An organization's resilience is affected by how well its leaders manage the tension between dealing with today's problems and planning for better management of tomorrow's.

implicit understanding that the former will not frivolously pull the cord and the latter will not punish the former if the cord is pulled (or not pulled) in error. Other car companies have tried for years to copy the Toyota system, but they have failed out of an inability to create the necessary relational contract.

An organization's resilience is also affected by how well its leaders manage the tension between dealing with today's problems and planning for better management of tomorrow's. From the long list of to-dos that Pandit had to consider alongside the possible surgeons' revolt, she chose cultural change as her foremost priority. But why focus on an intangible when so many tangibles needed attention?

The leadership expert Stephen Covey provides an answer: Managers often conflate the *urgent* with the *important*. There are always "urgent" issues on a manager's plate, especially in a crisis, and responding to them can very quickly become all-consuming. But the more leaders focus on firefighting, the less they focus on fire prevention—and the more fires they will need to put out in the future.

If Pandit had not prioritized cultural change in March 2020, she would never have had the capacity to address the stream of urgent decisions that came her way during a pandemic of indeterminate length. So she decided to continue building a culture of patient safety, confidence in management, and intelligent risk management—not to the exclusion of handling emergencies but with a view to ensuring that more of them could be handled by trusted and competent delegates.

Personal resilience. This is perhaps the most elusive element in the framework. Managers are reluctant to talk about it because they fear that to do so will signal a lack of it. Here I have boiled down insights from various literatures into three takeaways.

→ ***Do not conflate optimism with resilience.*** A positive mindset is an element in individual resilience, but when managing in the age of outrage, it must be balanced with continual reappraisal of the situation at hand to allow for a recalibration of strategy and tactics. The author and consultant Jim Collins captured the difference when he suggested that leaders must have both an unfailing belief in ultimate victory and the daily discipline to acknowledge and address harsh realities.

→ ***Beware learned helplessness.*** We often create false narratives about adversity. Getting laid off from work is a traumatic experience that negatively affects self-worth. So someone who subsequently experiences another difficult work environment may attribute it to personal failings and struggle to address the challenges. Surmounting this learned helplessness involves acknowledging the false logic of our scripts, which usually requires external support through what experts call *active-constructive* relationships. Cressida Dick, for example, considers a community of trusted friends indispensable.

→ ***Cultivate detachment.*** According to the ancient Stoic philosopher Epictetus, "The chief task in life is simply this: to identify and separate matters so that I can say clearly to myself which are externals not under my control, and which have to do with the choices I actually control." I was drawn to this philosophy by some of the protagonists in my case studies, having noticed that managers who are successful in the age of outrage often manifest stoicism. The method is frequently misunderstood as advocating emotionlessness in the face of both pleasure and pain. For Stoics, however, the objective is not to deny emotions but, rather, to avoid pathological ones.

KARL POPPER, one of the 20th century's most influential philosophers, argued that science progresses by falsifying our theories about the world—a process of continual criticism. Ironically, he was also known for his "inability to accept criticism of any kind," in the words of Adam Gopnik. Observing this disconnect, Gopnik concluded, "It is not merely that we do not live up to our ideals but that we cannot, since our ideals are exactly the part of us that we do not instantly identify as just part of life."

I aspire every day to the framework offered here but do not always live up to it. I hope this admission comforts and encourages fellow managers who may be muddling through a polarized and uncertain world.

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KARTHIK RAMANNA *is a professor of business and public policy at Oxford University's Blavatnik School of Government. He is a coauthor (with Robert S. Kaplan) of the 2022 McKinsey Award–winning article "Accounting for Climate Change" (HBR, November–December 2021).*

The Power of

Always give yourself four ways to win.

Options

PHOTOGRAPHER **MATTHIAS HEIDERICH**

AUTHORS

David Noble
Founder, View Advisors

Carol Kauffman
Founder, Institute of Coaching

LEADERSHIP STYLES

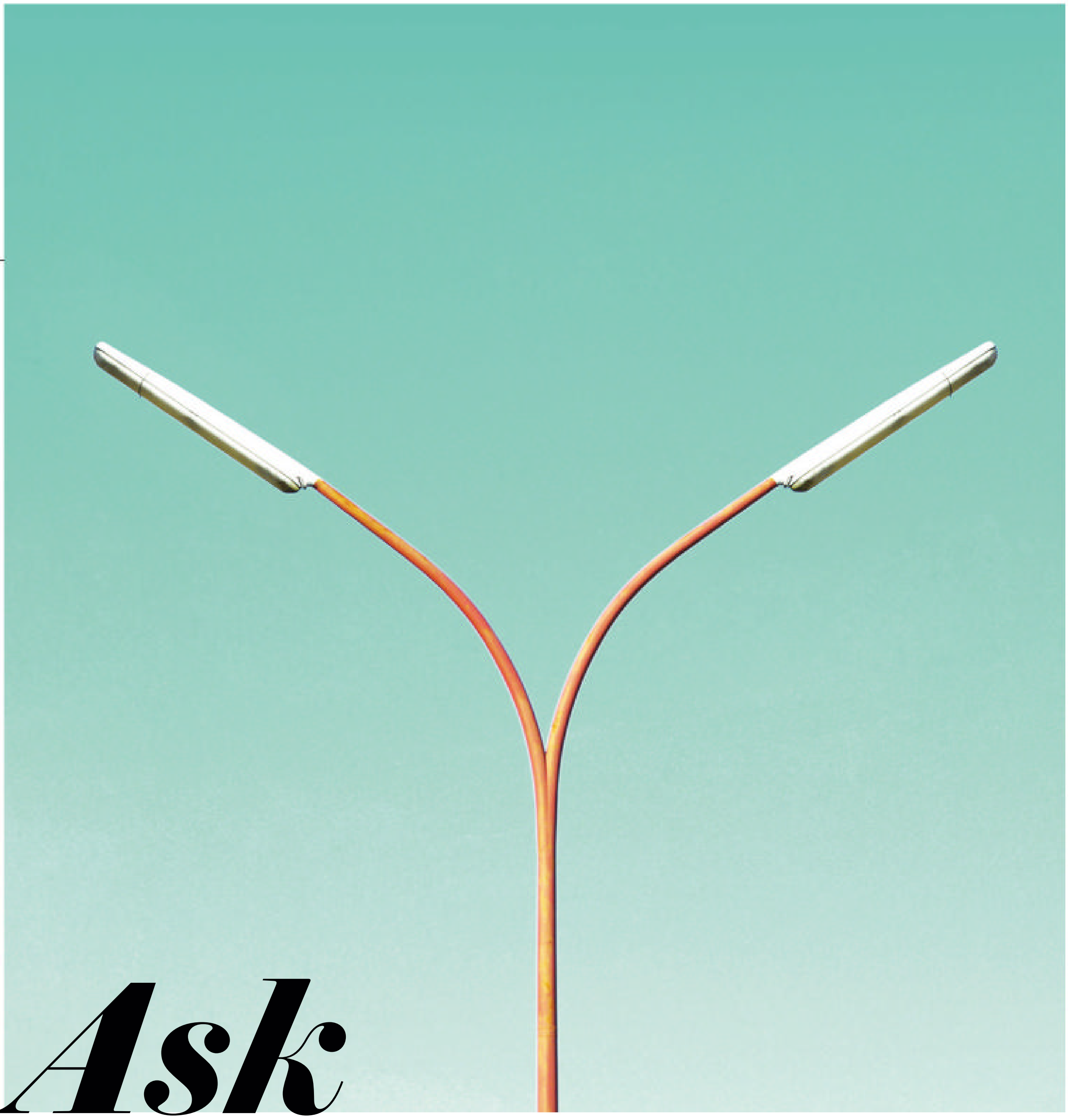
LEADERSHIP STYLES

IDEA IN BRIEF

THE PROBLEM
Facing a crisis or an opportunity, leaders often fall back on the leadership style that has worked for them in the past. But to be effective, they need to rise above their default reactions and generate more options for how to respond in real time.

A NEW MODEL
In this article two leadership coaches offer an approach, called the "four stances," to help leaders generate options for interpersonal communication.

THE PROCESS
Leaders should identify which stance is their default, make a plan for using alternative ones in various situations, and be ready to pivot if an approach is not working.



Ask leaders how

they will respond to a crisis or a massive new opportunity, and they often will tell you they already know what to do. This is surprising because most crises and opportunities have unexpected elements. A high-powered executive whom we coach once told us, "In any crisis, I come out of the gate fast and take action. I go over, under, or through any wall in my way. With my people, I lead from the front." To be sure, that approach has the benefit of decisiveness, but it offers a narrow path, especially in high-stakes situations. What happens when such leaders run into obstacles they can't muscle their way through?

Another leader we coached had a different approach. He was an incredible delegator with legendary calm. This worked well until a crisis surfaced and his team started feeling lost and overwhelmed. He stayed steady, confident in his default style, telling people, "Don't worry, I have confidence that you'll figure it out." They didn't figure it out, team members began fighting with one another, and within months the company lost its market-leading position.

ABOUT THE ART

Berlin-based photographer Matthias Heiderich is interested in architectural patterns and colors he finds in the city, especially in overlooked functional spaces and in the multitude of ways that inhabitants design and shape their surroundings.

In our work coaching and advising senior leaders, we have found that when faced with unfamiliar or risky situations, leaders often rely on their familiar playbook. They act instinctively, falling back on behavior and postures that worked for them before. But should their operating environment experience a discontinuity, reflexes—which may still be right at times—can no longer be counted on. To be effective, leaders need to rise above their default reactions and generate more options for how to act in the very moments when they are needed most.

Few leadership roles come with a treasure map showing a direct line to where X marks the spot. That's why the ability to generate multiple pathways to a desired destination is crucial to success. Whether it's chasing a strategy that could drive 10x growth in a business, facing a potentially catastrophic threat, or guiding a team through uncharted territory, great leaders generate options so that when an opportunity arises or a crisis hits, they can pivot in real time and make the optimal move.

Our experience shows that leaders' success depends on their ability to MOVE—that is, to be *mindfully* alert to priorities, to generate *options* so that they always have several ways to win, to *validate* their own vantage point, and to *engage* with stakeholders to ensure that they are along for the ride. (We lay out this framework in our book, *Real-Time Leadership*. To gauge your ability to MOVE, take our self-assessment at RealTimeLeadershipInstitute.com.) In this article, we examine the crucial second step of our model. Specifically, we look at four common leadership approaches and the scenarios in which each can be most helpful, and we introduce a process for navigating the options in real time.

THE FOUR STANCES

Dozens of research studies spearheaded by American psychologists Charles "Rick" Snyder and Shane J. Lopez demonstrate how people's capacity to reach their desired goals can be increased by conceiving multiple possible pathways. Most people assume that success at a task is a question of perseverance or willpower. But Snyder and Lopez show that willpower must be coupled with "way power" to drive successful outcomes. Their research suggests that ideally you will have four or more options or pathways for achieving your goals (external priorities). It also demonstrates the importance of determining who you want to be as a leader in terms of your character strengths and values (internal priorities) and how you can best relate to others (interpersonal priorities).

Building on this work, we have developed an approach, called the "four stances," to help leaders generate options for interpersonal communication. Think how tennis players nearly instantly shift their stance to make an optimal response to a ball hurtling over the net. The core concept for our approach is rooted in evolutionary psychology and how our basic reflexes (fight, flight, and so on) automatically deploy under dangerous or novel circumstances. In the more evolved world of leadership, the four stances help leaders identify and access more interpersonal options. The stances are:

→ **Lean In.** Take an active stance on resolving an issue. Actions in this stance include deciding, directing, guiding, challenging, and confronting.

→ **Lean Back.** Take an analytical stance to observe, collect, and understand data. Actions include analyzing, asking questions, and possibly delaying decisions.

→ **Lean With.** Take a collaborative stance, focusing on caring and connecting. Actions include empathizing, encouraging, and coaching.

→ **Don't Lean.** Whereas a Lean Back posture involves observing and analyzing, Don't Lean is about being still and disciplining yourself to create space for a new solution to bubble up from your subconscious. This stance also serves to calm you if your emotions have been triggered. Actions include contemplating, visualizing, and settling through diaphragmatic breathing.

To win in any leadership moment, great leaders need to develop and be able to access all four stances. To illustrate, let's consider one of our clients, Isobel, a newly appointed president of a major business line at a tech company.

Isobel was in trouble and called us in. She was at loggerheads with the firm's mercurial CEO, who had a tendency to be unreliable—contradicting himself, changing positions, and often making promises the company couldn't deliver on.

"I'm getting a bad reputation for being aggressive at board meetings," she told us at our first two-on-one coaching session. "I just tell the truth—someone needs to—but I'm the one getting dinged."

As we talked, we identified a clear gap between her own and others' perceptions. Leaning In—*way* in—was her default stance. As a former lawyer, she was a world-class debater, and her impact was far more powerful than she realized. It was clear she needed to overcome her reflexive behavior and find other viable ways to win. We described the four stances and asked her to consider alternatives to her default approach.

"But I need to be authentic," she countered.

"Of course," we responded, "but you can use other stances while still being true to yourself."

> Even if you aren’t in a situation where you must think on your feet, you can use the four stances to unlock options and create a plan in advance.

We went through the stances one by one. In situations in which Lean In was the best choice, she saw that she could be more skillful by better calibrating the intensity of her remarks. If she could learn to Lean Back and not rush into conflict, she could slow down her reactions and be more strategic about when she would engage. If she applied Don’t Lean, she could take a moment to breathe, which could help her neutralize her activation by the CEO and keep a clear head. We were all surprised that asking about Lean With was what pivoted Isobel into a new way of operating. Drawing on Harvard Business School professor Amy Edmondson’s groundbreaking work on psychological safety, we asked, “What if your job at the board meeting was to make the CEO and directors feel safe?”

Isobel immediately embraced that approach, which appealed to her protective side. She spontaneously started thinking through the implications. Supporting the CEO would probably help him calm down and make the meetings less painful for everyone. In the Lean With stance, she could also tolerate his contradictions by understanding that his first reaction wasn’t always his final word. She decided that she would enthusiastically support his comments when they were in alignment with the executive committee’s assessment and refrain from reflexively challenging him when he veered off course, unless the board was close to a vote on that recommendation. After adopting this approach, her reputation with the board skyrocketed. She became known as a leader who made peace rather than war.

PUTTING THE PROCESS TO WORK

How can you adapt the four stances without an executive coach? We recommend a five-step process for addressing major opportunities and crises, whether they play out in the moment or over the long term. It will enable you to choose your way forward rather than being propelled by reflex.

Identify your default stance. Rank how comfortable you are working with others in each stance. This simple exercise is often all our clients need to identify their default stance, but if there’s any doubt, reflect on feedback you’ve been given, such as a 360-degree review. You may think of yourself as a Lean With leader because you favor decisions based on consensus—but is that accurate? When you have power as a leader, people rarely tell you the truth about how you come across. Be honest with yourself.

Reflect on high-stakes situations. Is the stance you take under stress different from your default stance? Think back to instances when you were able to pivot in the moment if your default stance wasn’t leading to the desired result and compare those moments with times when you stubbornly stuck with a failing approach. What held you back from moving to a different option? Habit? Panic? How can you build on experiences when you’ve done well while avoiding mistakes?

Determine the optimal stance on the basis of whom you are interacting with. Most leaders we work with are familiar with the Golden Rule of treating others as you would like to be treated. But the best leaders we have worked with employ the Platinum Rule—treating others as *they* would like to be treated, which may be different from what the leader would want in their shoes. Imagine an introvert suddenly interrupted by an extrovert who means to be helpful by offering a pep talk. Or, conversely, an extrovert in need of encouragement who ends up feeling ignored by an introvert whose intention is to offer the gift of space and time to think. To live by the Platinum Rule, become a keen observer of other people and yourself. Notice body language, tone of voice, eye contact, and reactions to what you do and how you move.

Make a plan. When an interpersonal issue arises, make space in real time to figure out how to handle it. This beat in time may last only a matter of seconds, but the point is to pause and get clarity on your intention so that you can be deliberate in your reaction. How do you want to relate, right now? Recognize that your default stance will be pulling at you—but remember that you have the option to choose a different one. We all need to dial back on some stances and develop others.

Even if you aren’t in a situation where you must think on your feet, you can use the four stances to unlock options and create a plan in advance. Suppose you need to communicate a change in strategic direction to your team, such as a shift from a major cost-transformation effort toward a growth strategy. First, Lean In and come up with a list of options for how you might best get people on board. When you think you are finished, Lean Back and be even more objective. Ask yourself, “What else would align the team?” Then Lean With

by consulting others about what they think the options are for you to create a trusting and positive climate in which the change will be best received. And then Don't Lean and see if anything else pops into your mind. Put the issue on the back burner for a moment and let your subconscious go to work.

Look for signs that it's time to pivot. To create the impact you want, you need to be aware of any negative effects that a given stance is having on the people around you. This will be your signal that it's time to adopt a new one. If Lean In is your default (as it is for many leaders), recognize that doing so too often—or too hard—can shut others down, especially when you are in a position of authority. In meetings, pay attention to how much you're speaking compared with others. Automated transcription software can provide data showing whether your voice is (or is not) the dominant one in the room. Most leaders are surprised by how much they need to switch to Leaning Back or Leaning With. Focus on listening with the goal of understanding. Consciously catch yourself not only when you're jumping into the conversation but also when you stop listening carefully and start thinking about your response. After someone has finished speaking, take three breaths before you reply.

If Lean Back is your default, observe how your team is reacting: Are your people engaged with bright and alert eyes? Are they drowning in data? You may win minds with analysis, but being overly objective may cause you to lose hearts. People won't be eager to work through the night to hit a deadline, but they will for an inspiring, caring leader. You must also observe yourself: Are you holding back when you should be speaking up to help your team?

When your default instinct is to Lean With, be wary of using the stance to avoid tough conversations or to accept poor performance because you "care." As a leader you may find it difficult to watch someone struggle, but support is different from protection. Look back over a week or a month and ask yourself how many times you ignored a performance issue fearing that speaking up would hurt the other person's feelings. Did you praise team members when you should have been pushing for better results because you were worried about how they might react? Remember, when a baby chick tries desperately to break open its shell, you shouldn't help it. If you do, it may die. The thrashing around is how it strengthens its muscles so that it can survive in the world.

A Guide to the Four Stances

This list of cues can help you determine when to use—and when to avoid—each stance.

STANCES	WHEN TO USE IT	WHEN NOT TO USE IT
LEAN IN *(deciding, directing, guiding, challenging, confronting)*	→ When people seem rudderless and passive and need help organizing and focusing their efforts → When you want to energize people without triggering fear → When change is happening rapidly and chaotically → When the world has turned upside down and you need to stabilize the situation	→ When people quiet down when you enter the room → When people don't offer counteropinions → When people need more support and time to think → When your emotions have been triggered
LEAN BACK *(collecting data, analyzing, asking questions, delaying decisions)*	→ When people need more information → When emotions are running high and more data will help ground the team → When you are working with introverts who respond better to data than to inspirational rhetoric	→ When team discussion has reached the point of diminishing returns → When people seem overwhelmed and more data is obfuscating rather than clarifying thinking
LEAN WITH *(empathizing, coaching, collaborating, encouraging)*	→ When morale is low → When your people are extroverts and connection is the currency of choice → When you notice how a smile or an affirming remark energizes someone	→ When you notice a team member needs space to think → When a team is operating well on its own and doesn't need support → When people want to feel independent
DON'T LEAN *(contemplating, being still, visualizing, breathing)*	→ When team members need to work something out on their own and your presence may be an intrusion or slow their progress → When the team is frenetic and needs a break or a time-out to calm things down	→ When the team needs to step into planning or action mode → When a crisis hits and people are looking to you for guidance

It's not common for Don't Lean to be a default stance, but people often overrely on it in high-stakes situations, sometimes shutting down under threat. That leads to errors of omission. Look back at your calendar and ask if there were times when you did not respond to others or rejected their concerns because it might have raised your stress level. Have you actively avoided a situation, such as a difficult team dynamic, hoping that the problem would somehow solve itself or that others would solve it without your participation? If you are susceptible to this type of behavior, work hard to recognize when it's happening, notice what it feels like, and consider other stances you might take.

As a general rule, it is best to Lean In when your team seems directionless and needs help getting organized or galvanized. Lean Back when more information will help ground you, your team, or stakeholders. Lean With when people need support, encouragement, or motivation. Don't Lean when the team needs to work something out on their own and your presence would impede their progress. At the same time, inject calm and confidence if they seem frenetic. (For a summary, see the exhibit "A Guide to the Four Stances.")

Whatever stance you adopt, be aware that you can use it with varying levels of intensity. For instance, a Lean In comment can be a directive or a suggestion, and you can Lean Back with a deep dive on an issue or a more surgical set of questions. Your choice of framing should be dependent on what will work best for the other person given the situation at hand. As you work to improve your ability to use each stance, it's best to calibrate your behavior according to your

> The approach that most helped elevate you into a leadership role won't always be the right one to deploy as a leader.

comfort level. If Leaning In is uncomfortable, for instance, push yourself to communicate one more thing than you might otherwise. If you don't Lean Back enough, try asking a question instead of making a statement.

THE FOUR STANCES IN REAL TIME

Mastery of the four stances is about being able to read each moment and shift your stance quickly, under stressful circumstances. For the highest-stakes interactions, you will need to draw on all four. Consider a client of ours who, after considerable work mastering the four stances, was able to put them all into action during a tense moment.

Nathan, the CFO of a public health-care company, received news that its largest business unit had fallen short on its latest revenue forecast, imperiling the firm's earnings for the quarter. Nathan called an urgent meeting with Ted, the new president of the business line. In Nathan's office, Ted looked like he hadn't slept in days and appeared tense as a coil.

Nathan wasn't immediately clear on which stance was optimal to kick off the meeting, so he chose Don't Lean to see what surfaced. He took a deep breath to calm himself. He noted that his reflex was to Lean Back and grill Ted about the situation. He also realized that he was feeling blindsided by the revenue shortfall, but since Ted would be held accountable by the CEO, Nathan didn't need to rake Ted over the coals too. And he was angry with himself for having signed off on what had turned out to be an unreasonable forecast.

Leaning With, Nathan said, "This is rough for all of us. How are you doing?" Ted, who was braced for condemnation, was surprised. He unfolded his arms and talked about the toll this was taking on his entire team. Nathan said, "What's done is done. Let's unpack it together." Ted nodded.

Leaning Back, Nathan adjusted his instinct to launch a barrage of questions, and opted for a more open-ended question to reduce Ted's defensiveness: "How should we approach this to get to the root causes?" Ted suggested they could start by exploring how much of the shortfall was a result of the operating environment, how much was execution challenges, and how much was a flaw in the forecasting model. Together, they identified the source of the problem and developed a plan to recoup some of the revenue gap.

"What else?" Nathan asked as the meeting came to its seeming conclusion. His calm approach motivated Ted to speak directly. "You and the CEO made a top-down decision to increase our targets just as the macro outlook was getting wobbly. We didn't want to disappoint you, so we ended up overreaching. If you'd consulted me at the time, I would have told you that we had less than a 20% chance of getting there."

Nathan found this painful to hear, but he also knew it was the heart of the matter. Leaning In and Leaning With, he said, "Ted, you and I are still getting to know each other. I was aware that we were stretching, but I put the odds at 60% in our favor. If I'd known what you just told me, I might have shaded back the earnings guidance."

"You didn't seem very open to input," Ted replied.

Absorbing the comment, Nathan used Lean With again. "I don't want you to feel that way. It's OK to have strong points of view. Going forward, I want you to know that the CEO and I both want real debate, so don't hold back."

Continuing to Lean In, Nathan added, "We may still make a call you don't like, but we need to have a rigorous dialogue to come up with a better decision for the firm." Ted appreciated Nathan's candor and was receptive to the new guidelines. That wasn't the last time Ted's business unit presented a challenge to Nathan, but thanks to Nathan's agile response, it was the last time the cause was lack of communication and honest feedback.

CREATING OPTIONS FOR managing interpersonal relationships requires keen observation skills in real time and the ability to self-regulate in stressful situations. But most of all, it requires humility to acknowledge that the approach that most helped elevate you into a leadership role won't always be the right one to deploy as a leader. No organization can survive if led by people who cling to the same approach in every situation. Just as the most enduring organizations are agile and adaptable, so too are the best leaders.

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REAL-TIME LEADERSHIP

DAVID NOBLE *is the founder of View Advisors and a leadership and strategy coach and adviser.* **CAROL KAUFFMAN** *is on the faculty of Harvard Medical School and is the founder of the Institute of Coaching. They are the authors of* Real-Time Leadership *(Harvard Business Review Press, 2023), on which this article is based.*

AI & MACHINE LEARNING

AUTHORS

Thomas H. Davenport
Professor, Babson College

Nitin Mittal
Principal, Deloitte Consulting

STOP TINKERING WITH AI

It's time to go all in.

ARTIST **CAROLYN DOUCETTE**

AI & MACHINE LEARNING

ABOUT THE ART
Carolyn Doucette's digitally altered photographs investigate the human presence in nature.

IF YOU ASK

someone to name a company that's putting artificial intelligence at the center of its business, you'll probably hear a predictable list of technology powerhouses: Alphabet (Google), Meta (Facebook), Amazon, Microsoft, Tencent, and Alibaba. But at legacy organizations in other industries many leaders feel that it's beyond the capabilities of their companies to transform themselves using AI. Because this technology is relatively new, however, no company was powered by AI a decade ago, so all those that have been successful had to accomplish the same fundamental tasks: They put people in charge of creating the AI; they rounded up the required data, talent, and monetary investments; and they moved as aggressively as possible to build capabilities.

Easier said than done? Yes. At many organizations AI initiatives are too small and too tentative; they never get to the only step that can add economic value—deploying a model on a large scale. In a 2019 survey conducted by *MIT Sloan Management Review* and Boston Consulting Group, seven

IDEA IN BRIEF

THE PROBLEM
Many companies are simply experimenting with AI and don't plan or budget for full deployment of AI systems.

THE CAUSE
This typically occurs because the projects aren't accorded sufficient resources, scope, and time.

THE SOLUTION
The most aggressive adoption, combined with the best integration with strategy and operations, will ultimately provide the greatest business value.

out of 10 companies reported that their AI efforts had had minimal or no impact. The same survey showed that among the 90% of companies that had made some investment in AI, fewer than 40% had achieved business gains over the previous three years. That's not surprising: A pilot program or an experiment can take you only so far.

In our research over the past several years we have identified 30 companies and government agencies (which are not always known for their technological savvy) that have gone all in on AI—and reaped the benefits. Many of the companies compete in industries such as banking, retail, and consumer products. Having studied their journeys, we've identified 10 actions those 30 organizations took to become successful AI adopters.

To get substantial value from AI, your organization must fundamentally rethink the way that humans and machines interact in work environments. You should focus on applications that will change how employees perform and how customers interact with your company. You should consider systematically deploying AI across every key function and operation to support new processes and data-driven decision-making. Likewise, AI should drive new product and service offerings and business models. In other words, the technology should eventually transform every aspect of your business.

Each of the 10 undertakings we list in this article will bring your business closer to transformation—but to fully achieve it, you must avoid piecemeal efforts and attack all 10 tasks. The accompanying examples detail how some organizations succeeded. Your business may choose to handle the tasks differently or to approach them in a different order.

1

KNOW WHAT YOU WANT TO ACCOMPLISH

Ambitious companies have a specific sense of how they mean to apply AI. They want to be more financially successful, of course, but identifying and developing transformational AI requires a clearer objective. Some businesses begin using the technology to improve process speed, reduce operating costs, or become better marketers. No matter what your reason is for harnessing AI, we recommend identifying one well-defined, overarching objective and making it a guiding principle for your adoption.

When Deloitte's audit and assurance practice began developing Omnia, a proprietary AI platform, in 2014, the guiding principle was to improve service quality globally. Creating a global tool in that field isn't as simple as translating data into multiple languages. Important differences exist in how countries regulate data, including standards for privacy, audit processes, and risk management.

A significant part of auditing a company is gathering financial and operational data in a format that can be easily analyzed. Because data structures differ between companies, extracting relevant data and loading it onto an auditing platform can be labor-intensive. Although Omnia was piloted with a U.S. client, the goal of making it a global tool created several unique challenges at the outset, such as developing a single data model that would work across clients and regions.

Envisioning Omnia as a global tool before it had been created allowed Deloitte's developers to focus on standardizing information from different companies in different countries—a huge undertaking that would have been even more challenging later in the development process.

2

WORK WITH AN ECOSYSTEM OF PARTNERS

Building Omnia required the audit and assurance practice to monitor technology start-ups around the world to find solutions that fit Deloitte's needs. Without those partners, Deloitte would have had to develop the technologies in-house, which may have been possible, but at a much higher cost and on a much slower timeline. A company needs strong partnerships to succeed with AI.

Deloitte worked with Kira Systems, a Canada-based start-up with software that extracts contract terms from legal documents. Deloitte's auditors have historically had to read through many contracts and perform this task manually, but now Kira's natural-language-processing technology automatically identifies and extracts the key terms. Another partner, Signal AI, built a platform that analyzes publicly available financial data to identify potential risk factors in a client's business. A recent addition to the Omnia platform

> To get substantial value from AI, your company must fundamentally rethink the way humans and machines interact in work environments.

is Trustworthy AI, a module developed in partnership with Chatterbox Labs, which evaluates AI models for bias.

3

MASTER ANALYTICS

Most successful AI adopters had significant analytics initiatives underway before they moved headlong into artificial intelligence. Although any form of machine learning may include other technologies that are not based on analytics, such as autonomous actions, robotics, and the metaverse, it has analytics at its core, which is why mastering analytics is crucial to AI adoption.

But what exactly does "mastering analytics" mean? In this context it requires a commitment to using data and analytics for most decisions, which means changing the way you deal with customers, embedding AI in products and services, and conducting many tasks—even entire business processes—in a more automated and intelligent fashion. And to transform their businesses with AI, companies must increasingly have unique or proprietary data: If all their competitors have the same data, they will all have similar machine-learning models and similar outcomes.

Seagate Technology, the world's largest disk-drive manufacturer, has tremendous amounts of sensor data in its factories and has been using it extensively over the past five years to improve the quality and efficiency of its manufacturing processes. One focus of this effort has been automating the visual inspection of silicon wafers, from which disk-drive heads are made, and the tools that manufacture them. Multiple microscope images are taken from various tool sets throughout wafer fabrication. Using data provided by the images, Seagate's Minnesota factory created an automated system that allows machines to find and classify wafer defects directly. Other image-classification models detect out-of-focus electron microscopes in the monitoring tools to determine whether defects actually exist. Since these models were first deployed, in late 2017, their use has grown extensively across the company's wafer factories in the United States and Northern Ireland, saving millions of dollars in inspection labor costs and scrap prevention. Visual inspection accuracy, at 50% several years ago, now exceeds 90%.

Data is the foundation of machine-learning success, and models can't make accurate predictions without large quantities of good data. It's fair to say that the single biggest obstacle for most organizations in scaling up AI systems is acquiring, cleaning, and integrating the right data. It's also important to actively pursue new sources of data for new AI initiatives—something we'll discuss later in this article.

4

CREATE A MODULAR, FLEXIBLE IT ARCHITECTURE

You'll need a way to easily deploy data, analytics, and automation across your enterprise applications. That requires a technology infrastructure that can communicate and understand data from other IT environments, both inside and outside your company. Software in a traditional data center is typically designed to communicate only with software from the same data center. Integrating it with software from outside that infrastructure can be time-consuming and expensive.

A flexible IT architecture makes it easier to automate complex processes, such as Deloitte's extraction of key terms from legal documents. If you can't develop such an architecture on your own (few small and midsize businesses can), you may have to partner with a company such as Microsoft Azure, Amazon Web Services (AWS), or Google Cloud.

Capital One, which has been recognized for decades as an analytics powerhouse, has used analytics to understand consumer spending patterns, reduce credit risk, and improve customer service. (Disclosure: One of us, Tom, has been a paid speaker for Capital One.) In 2011 Capital One made a strategic decision to reinvent and modernize its culture, operating processes, and core technology infrastructure. The transformation involved moving to an agile model for delivering software, building a large-scale engineering organization, and hiring thousands of people for digital roles. It also inspired the company to move its data to the cloud.

Capital One built its cloud architecture in partnership with AWS. But before the move to the cloud, Capital One's executives had to reimagine the future of banking. The digital channels to which customers were migrating, such as the bank's website and mobile app, produced substantially more data than in-person interactions did, giving the bank an opportunity to better understand how customers interacted with it. Shifting to the cloud made strategic sense partly because it would drive down the costs of data storage. In 1960 storing one gigabyte cost $2 million, according to data from USC's Marshall School of Business. That cost dropped to $200,000 in the 1980s, $7.70 by the early 2000s, and—thanks to cloud storage—as low as 2 cents by 2017.

The bank determined that AWS could provide software-driven, massively scalable, instantly available data storage and computing power in the cloud at a much lower cost than storing data on the premises. Innovative new machine-learning tools and platforms were also available on AWS. It no longer made sense for Capital One's IT organization to build and manage infrastructure solutions for all this data. Instead it began to focus on developing software and business capabilities. Today Capital One analyzes an endless stream of data from web and mobile transactions, ATMs, and card transactions in real time to meet customer needs and prevent fraud. By 2020 the bank had closed its last data center and moved all its applications and data to the AWS cloud.

To be sure, many companies have already migrated data and applications to the cloud (or they originated there). Those that haven't will have a harder time becoming aggressive AI adopters.

5

INTEGRATE AI INTO EXISTING WORKFLOWS

Inflexible business processes can be as limiting as inflexible IT architectures are. The companies described in this article took pains to integrate AI in the daily workflows of employees and customers. To do this at your organization, determine which of your workflows are ripe for AI speed and intelligence and begin integrating AI into them as soon as possible. Avoid trying to cram it into workflows that wouldn't benefit from machine speed and scale, such as seldom-used business processes that neither involve nor generate enormous amounts of data and repetition.

Workflow integration requires an even more specific plan of attack than does task 1, "Know what you want to accomplish." Say you have determined that you want

to improve customer service. But integrating AI in existing customer-service workflows requires acute on-the-ground knowledge of those processes that few C-suite executives have. Line employees, however, have an ideal perspective for determining which processes can benefit from artificial intelligence and how the processes can be specifically improved.

Some branches of the U.S. government identified specific tasks and workflows that were ideal for AI speed and scale. NASA, for example, launched pilot projects in accounts payable and receivable, IT spending, and human resources. (As a result of the HR project, 86% of its HR transactions were completed without human intervention.) The Social Security Administration has used AI and machine learning in its adjudication work to address challenges from heavy caseloads and to ensure accuracy and consistency in decision-making. At the start of the Covid-19 pandemic the Department of Veterans Affairs implemented AI chatbots to field questions, to help determine the severity of confirmed cases, and to find potential locations for patient admission. The Transportation Security Lab at the Department of Homeland Security Science and Technology Directorate is exploring ways to incorporate AI and machine learning in the TSA screening process to improve passenger and bag scanning. The Internal Revenue Service is using AI to test which combinations of formal notices are most likely to induce a taxpayer who owes money to send a check.

6

BUILD SOLUTIONS ACROSS THE ORGANIZATION

Once you've internally tested and mastered AI across a specific workflow, you'll want to become more aggressive in deploying it throughout the organization. Rather than designing one algorithmic model for one process, your goal should be to find a unified approach that can be replicated across the company.

Cleveland Clinic has "AI popping up all over the place," according to Chris Donovan, its executive director of enterprise analytics and information management. His group facilitates worker-led efforts to develop and deploy AI while also providing executive-led governance approaches. The effort thus far has been driven by a cross-organizational community of practice anchored in the enterprise analytics, IT, and ethics departments.

Like most organizations that are beginning aggressive AI transformations, the clinic faces a huge challenge involving data and analytics. According to Donovan, hospitals have much less data than organizations in other industries, and it is less likely to be clean and well structured. Cleveland's data, he says, has quality issues, is captured poorly, is entered in different ways, and involves different definitions across the institution. Even a common metric such as blood pressure can be taken while the patient is standing, sitting, or supine—typically with varying outcomes—and is recorded in a variety of ways. Knowledge of each practice's data structures is required to interpret the BP data accurately. Rather than leave data preparation to each practice within the clinic for each individual data set, Donovan's group makes it a part of every AI project and works to provide useful data sets to all AI projects.

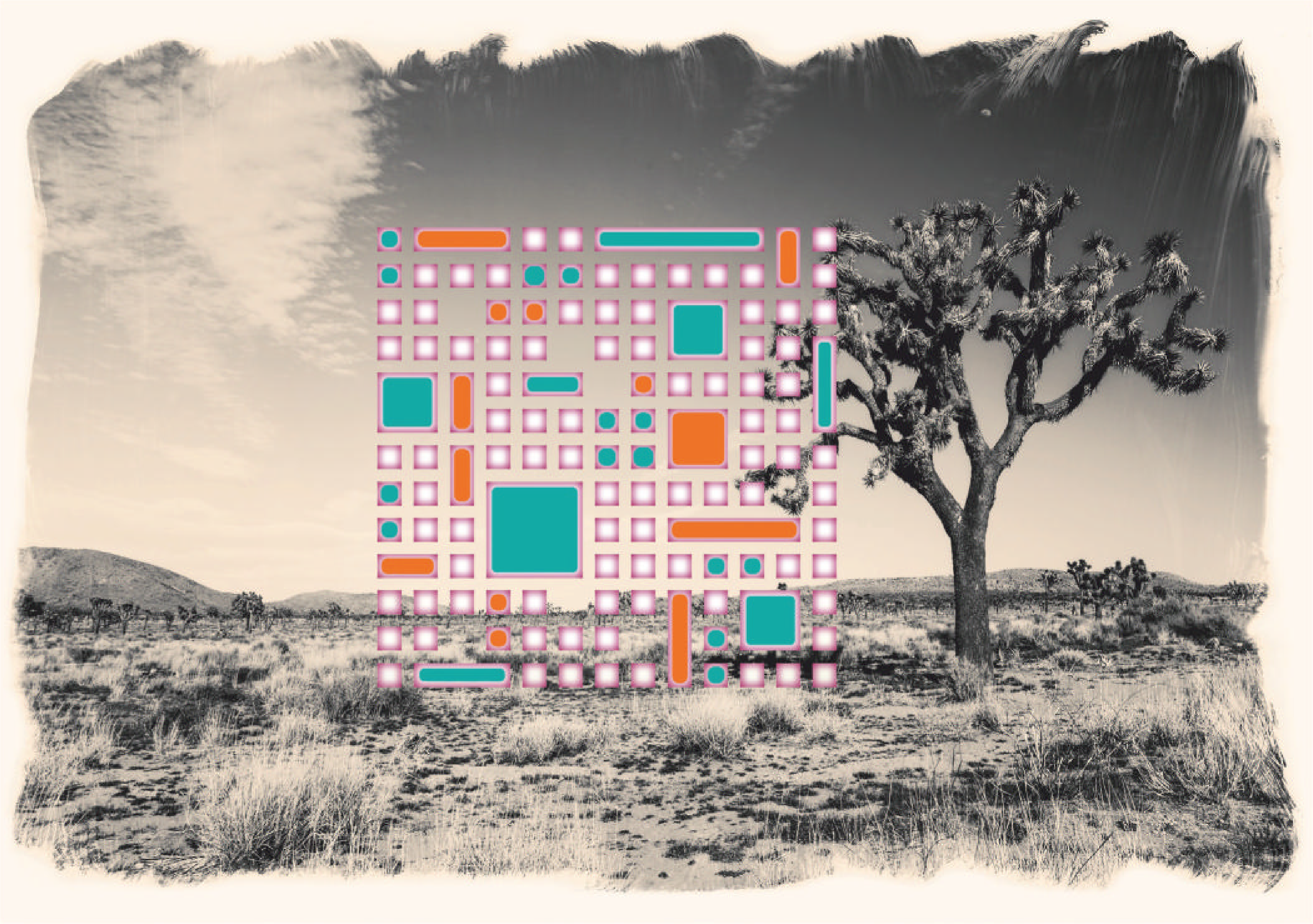
Cleveland Clinic also uses AI to assess risk in the population health area, where it has built a predictive model that helps prioritize the use of scarce resources to deliver care to the patients most in need. The predictive risk score is now its primary method for determining who gets a phone call to check in. A diabetic patient who has difficulty managing the disease, for example, would get a high-risk score. The clinic built another model to identify patients who are at risk for a disease but have no history or symptoms of it. It's used to proactively schedule them for preventive care. CC is also working to identify patients with problematic living or working conditions that affect their health; they may need a social worker as much as a physician, or a bus pass to get to medical appointments.

7

CREATE AN AI GOVERNANCE AND LEADERSHIP STRUCTURE

Putting someone in charge of determining how artificial intelligence is deployed throughout the organization makes transformation easier. The best leaders are aware of what AI can do in general, what it can do for their companies, and what implications it might have for strategies, business models, processes, and people. But the greatest challenge leaders face is creating a

The greatest challenge leaders face is creating a culture that emphasizes data-driven decisions and actions and is enthusiastic about AI's potential to transform the business.



Courtesy Rex Bruce/LACDA

culture that emphasizes data-driven decisions and actions and makes employees enthusiastic about AI's potential to improve the business. In the absence of that kind of culture, even if a few AI advocates are scattered around the organization, they won't get the resources they need to build great applications, and they won't be able to hire great people. And if AI applications are built, the business won't make effective use of them.

What kind of leader can foster the right culture? First, it helps to have a CEO or another C-level executive who is familiar with information technology leading the initiative. Although someone with no technical knowledge can lead AI efforts at your company, that person would have to learn a lot, and quickly. Second, it's important that the leader work on multiple fronts. The specific initiatives in which he or she chooses to get involved will vary by organization, but participation by a senior executive is particularly important to signaling interest in the technology, establishing a culture of data-driven decisions, prompting innovation across the business, and motivating employees to adopt new skills. Third, leaders hold the power of the purse. Exploring, developing, and deploying AI is expensive. Leaders must invest—or persuade others to invest—enough to enable all levels of adoption.

Decision-makers from all business units should ensure that AI projects get sufficient funding and time, and they should also implement AI in their own work.

Having a single AI leader helps, but ultimately commitment to this work must go deep into the organization. If upper, middle, and even frontline managers are only paying lip service to the idea of transforming with AI, things will move slowly, and the organization will most likely revert to old habits. We've seen some highly committed leaders build AI-focused companies with multiple initiatives. But their successors weren't believers, so the focus on AI lapsed.

8

DEVELOP AND STAFF CENTERS OF EXCELLENCE

Most heads of AI and analytics still spend a lot of time evangelizing to other managers about the value and purpose of the technology. Decision-makers from all business units should ensure that AI projects get sufficient funding and time, and they should also implement AI in their own work. It's important to educate that group on how AI functions, when it's appropriate, and what a major commitment to it involves. For the great majority of companies it's still early days for this upskilling and reskilling work, and not every employee needs to be trained in AI. But some clearly do, and probably the more the better. Each company referenced in this article realized that if it was to be successful, it needed considerable talent and training in AI, data engineering, and data science.

When Piyush Gupta joined DBS Bank as CEO, in 2009, it was Singapore's lowest-rated bank for customer service. Gupta has invested heavily in AI experimentation—about $300 million a year over the past few years—and has given business units and functions the flexibility to hire data scientists to see what they can accomplish. The bank's head of HR, who had no technical background, created a small working group to identify and pilot AI applications, including JIM—the Job Intelligence Maestro—a model that predicts personnel attrition and helps the bank recruit the most-qualified employees. DBS used it to hire many of the 1,000 data scientists and data engineers who work at the organization today.

DBS now has twice as many engineers as bankers, Gupta says. They work on emerging technologies such as blockchain and asset-backed tokens as well as on AI projects. And the bank's culture has greatly improved. *Euromoney* named DBS the world's best bank for each of the four years from 2018 to 2021, and its capital positions and credit ratings are now among the highest in the Asia-Pacific region. In 2019 *Harvard Business Review* named Gupta the 89th best-performing CEO in the world.

9

INVEST CONTINUALLY

Choosing to be aggressive with AI is not a decision leaders make lightly. That move will have a major influence on the company for decades and for large enterprises may ultimately involve hundreds of millions or billions of dollars. Every successful AI adopter we studied told us that's the cost of committing to ambitious AI adoption at the enterprise level. At first such resource commitments may be scary for organizations. But after seeing the benefits they received from early projects, the AI-powered companies we investigated found it much easier to spend on AI-oriented data, technologies, and people.

CCC Intelligent Solutions, for example, has spent and expects to continue spending more than $100 million a year on AI and data. (Disclosure: Tom has been a paid speaker for CCC.) The company was founded in 1980 as Certified Collateral Corporation. It was originally created to provide car valuation information to insurers. If you've had a car accident requiring substantial repair work, you've probably benefited from CCC's data, ecosystem, and AI-based decision-making. Over its 40-plus years CCC has evolved to collect and manage more and more data, to establish more and more relationships with parties in the automobile insurance industry, and to make more and more decisions with data, analytics, and, eventually, AI. For the past 23 years the company has been led by Githesh Ramamurthy, who was previously its chief technology officer. CCC has enjoyed solid growth and is approaching $700 million in annual revenues.

CCC's machine-learning models are based on more than a trillion dollars' worth of historical claims, billions of historical images, and other data on automobile parts, repair shops, collision injuries, and regulations. It also has gathered more than 50 billion miles' worth of historical data through telematics and sensors in vehicles. It provides data—and, increasingly, decisions—to an extensive ecosystem of some

300 insurers, 26,000 repair facilities, 3,500 parts suppliers, and all major automobile-original-equipment manufacturers. CCC's goal is to link those diverse organizations in a seamless ecosystem to process claims quickly. All those transactions take place in the cloud, where CCC's systems have been based since 2003. They connect 30,000 companies and 500,000 individual users and have processed $100 billion worth of commercial transactions. As you can imagine, reaching this point has been expensive and time-consuming.

10

ALWAYS SEEK NEW SOURCES OF DATA

Gathering data is typically not a problem for large companies, but AI strategies are driven in large part by whatever data can be assembled. More data is good. More accurate data is great. More accurate, structured data that can be applied to AI models immediately is ideal. Integrating data from client systems was perhaps the most challenging component of Deloitte's AI journey. Capital One always had strong data, but it needed a way to store and make use of it within a flexible IT architecture. CCC began accumulating data with its first business model and was therefore well prepared for a shift to an AI-based model. But CCC's transition from a data-oriented business to an AI-oriented one was solidified when it learned how to use a tremendous trove of data that hadn't existed five years earlier.

When you think of data, don't assume that it's just words and numbers. For CCC, vehicle images represent data that can be applied to several critical processes. CCC had accumulated billions of images over its history, but they were taken by adjusters at the site of vehicle damage or by repair shops. Those photos required professional cameras with special graphics cards to store and send the images.

Around 2012 CCC executives noticed that amateur cameras were getting better at a rapid pace and were being incorporated into smartphones. They envisioned a future in which the owners of damaged vehicles would be able to take their own photos for insurance estimates and send them directly from their phones. The executives expected that with no need for professional photographers and cameras, the process would be quicker and more cost-effective. They engaged several professors at leading universities to explore the capability. Meanwhile, CCC's executives began to read about a new AI approach to image analysis—deep-learning neural networks—that with enough training data could sometimes equal or surpass human analysis.

CCC assembled a pool of talented data scientists who learned how to map photos onto the structure of various vehicles and to annotate or label the photos for training. By mid-2021 the system was ready for deployment, and USAA signed on as one of its first customers. The virtuous circle of more data, better models, more business, and more data is what makes CCC's application of smartphone imagery so powerful. New data will continue to flow in to the company, and it will be used to improve estimate predictions and other functions. That will help CCC clients make better decisions, which will most likely bring CCC more business and more data.

WE BELIEVE THAT companies with the most aggressive AI adoption, the best integration with strategy and operations, and the best implementation will achieve the greatest business value. Knowing what the leading adopters are doing can help others as they attempt to assess technology's potential to transform their business. Your organization can take the 10 actions outlined here to move in the same direction.

We also believe that AI—applied strategically and in large doses—will be critical to the success of almost every business in the future. Data is increasing at a rapid pace, and that's not going to change. AI is a means of making sense of data at scale and of ensuring smart decisions throughout an organization. That's not going to change either. Artificial intelligence is here to stay. Companies that apply it vigorously will dominate their industries over the next several decades. ⊜

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Thomas H. Davenport
Nitin Mittal
All in on AI
How Smart Companies Win Big with Artificial Intelligence

THOMAS H. DAVENPORT *is the President's Distinguished Professor of Information Technology and Management at Babson College, a visiting scholar at the MIT Initiative on the Digital Economy, and a senior adviser to Deloitte's AI practice.* **NITIN MITTAL** *is a principal at Deloitte Consulting, the leader of its analytics and cognitive offering, and a coleader of Deloitte's AI strategic growth offering. They are the coauthors of* All In on AI: How Smart Companies Win Big with Artificial Intelligence *(Harvard Business Review Press, 2023), from which this article is adapted.*

PROJECT MANAGEMENT

AUTHORS

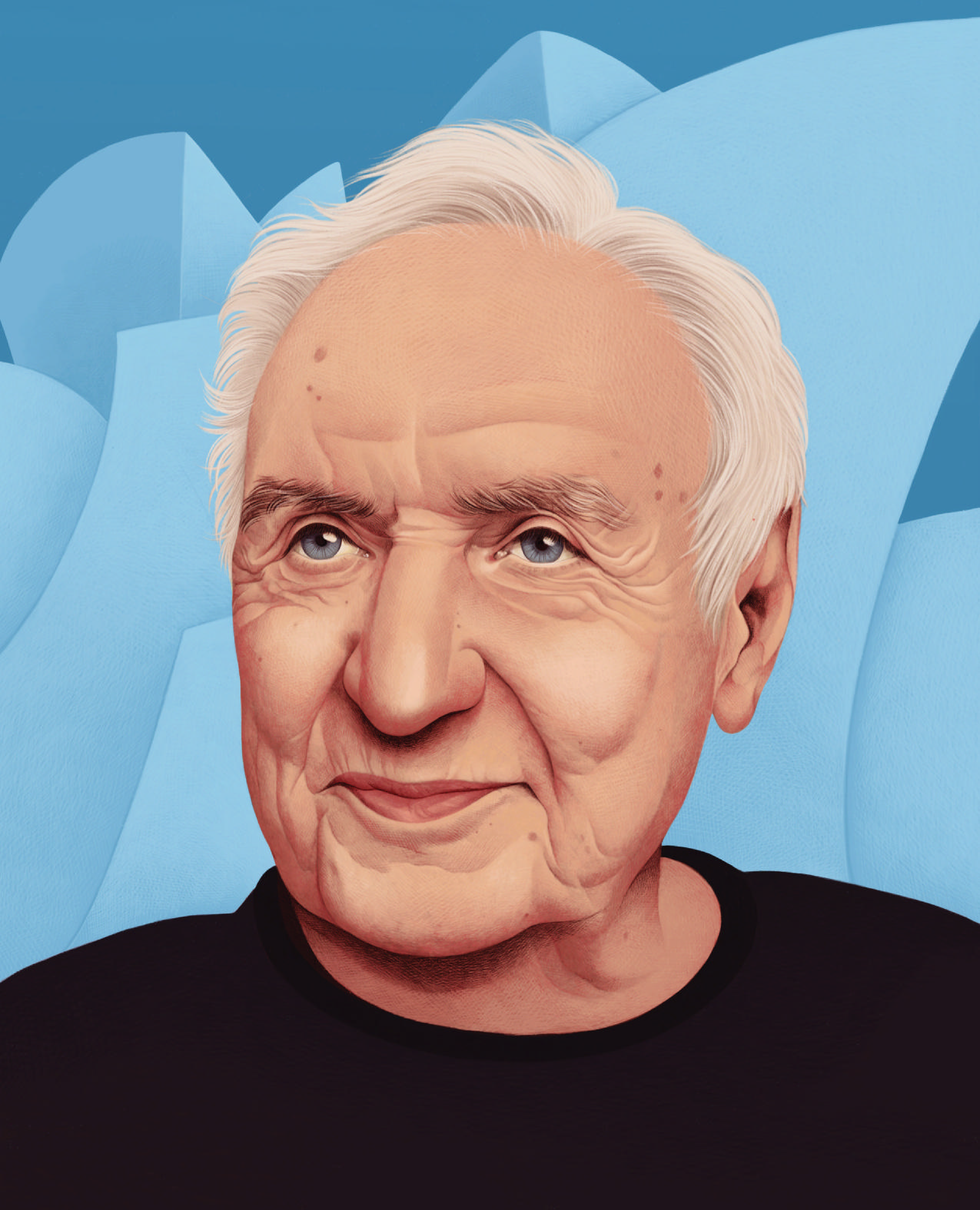
Bent Flyvbjerg
Professor, University of Oxford's Saïd Business School

Dan Gardner
Author and consultant

ILLUSTRATOR
MERCEDES DEBELLARD

How FRANK GEHRY *Delivers On Time and On Budget*

Lessons from the master architect in managing big projects



WHEN THE GUGGENHEIM Museum in Bilbao, Spain, opened, in 1997, critics hailed Frank Gehry's masterpiece as one of the architectural wonders of the past century. The provincial government's ambitious projections had called for 500,000 people a year to make the trek to Bilbao to visit the museum; in the first three years alone, 4 million came. The term "Bilbao effect" was coined in urban planning and economic development to describe architecture so spectacular it could transform neighborhoods, cities, and regions.

But what's less well-known is that the Guggenheim Bilbao also set a management standard that very few large projects have attained: It was delivered on time, within just six years, and cost $3 million less than the $100 million budgeted. And it has brought more attention, tourism, and development to Bilbao than the sponsors had hoped for, even in their wildest dreams.

In the quarter-century since the Guggenheim Bilbao, Frank Gehry's projects have repeatedly come close to or met the same demanding standard. "People presume I'm going to be over budget," Gehry told us with a little exasperation. "Which isn't true. All my buildings are built to the budgets agreed upon with the clients." His record for meeting deadlines and working within budgets isn't perfect. But it is extraordinary.

Consider the data. One of us (Flyvbjerg) has led a team at Oxford to gather data on the costs and benefits of major projects around the world. The result is a database that includes more than 16,000 projects—everything from large buildings to tunnels, bridges, dams, power stations, mines, rockets, railroads, highways, oil and gas facilities, solar and wind farms, information technology systems, and even the Olympic Games. Collectively, it paints a portrait of big projects across the world. And the portrait is not pretty: Only 8.5% of them were delivered on time and on budget, while a nearly invisible 0.5% of projects were completed on time and on budget *and* produced the expected benefits. To put that more bluntly, 99.5% of large projects failed to deliver as promised.

In that light, what Frank Gehry accomplished in Bilbao and elsewhere is astonishing. When you also consider that most of the projects in our database are relatively routine, whereas Gehry's projects invariably do things that have seldom or never been attempted before, his record looks downright miraculous.

So how does he succeed where so many others fail? In our interviews with Gehry and his colleagues, and from years studying his work, we've observed consistent patterns in the way he manages projects. From these, we have distilled four lessons that may help you make better decisions on the projects you manage.

Make Sure You Have the Power to Deliver What You're Accountable For

Before he came to prominence, Gehry had lived and worked as an architect for more than 30 years in Los Angeles, designing single-family homes and other modest projects with thin budgets. He had developed a reputation for putting cheap materials—plywood and chain-link fencing—to innovative use. In time, the projects he was offered grew in scale, ambition, and cost.

His big break came in 1988 when he was chosen to design the Walt Disney Concert Hall, a major new cultural addition to Los Angeles, underwritten by a $50 million gift from Lillian Disney, the widow of Walt. It was Gehry's first world-class commission and a huge step up for the architect, who, despite his experience, had never worked on such a scale.

But some of the powerful executives and city officials who had a hand in the project saw Gehry as an unproven minor-league player. Worse, he was an oddball known for using weird and cheap materials in his buildings. "They were scared to death of Frank," says Richard Koshalek, chairman

The Guggenheim Bilbao set a standard that very few large projects have attained: It was delivered on time, within just six years, and cost $3 million less than the $100 million budgeted.

Guggenheim Museum, Bilbao, Spain

IDEA IN BRIEF

THE CONTEXT

A study of some 16,000 major projects—bridges, dams, power stations, rockets, railroads, information technology systems, and even the Olympic Games—reveals a massive project-management problem.

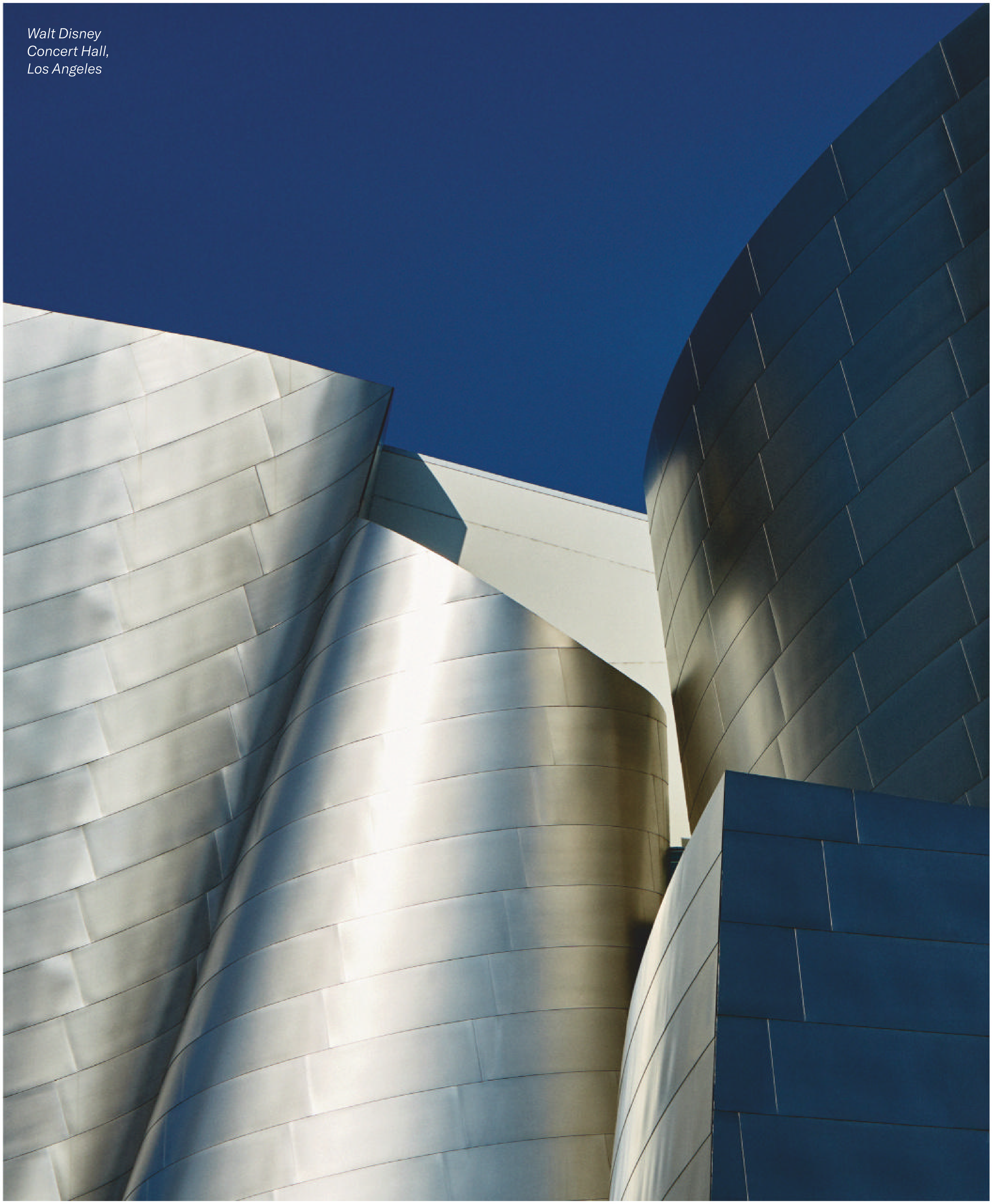
THE RESULTS

Only 8.5% of projects were delivered on time and on budget, while a mere 0.5% were completed on time and on budget and produced the expected benefits. In other words, 99.5% of large projects failed to deliver as promised.

THE OUTLIER

Master architect Frank Gehry consistently defies those odds, producing projects of staggering beauty while meeting time and budget targets. Interviews with Gehry and his colleagues reveal four lessons, described here, for successfully managing big projects.

Peter Knaup/Trunk Archive



Walt Disney Concert Hall, Los Angeles

Alexandre Weinberger/Trunk Archive

> The process Gehry follows from an idea to a finished building is based on trust. Trust produces power—and power gets projects done.

of the committee that had awarded the project to Gehry. So they sidelined him, asking him to deliver an initial design but not a detailed, buildable plan. That job would be given to an executive architect, with whom Gehry would share control of the project.

As Gehry puts it, "There's a tendency to marginalize and treat the creative people [the architects] like women are treated, 'Sweetie, us big business guys know how to do this, just give us the design, and we'll take it from there.' That is the worst thing that can happen." As Gehry predicted, the division of control on the Disney project didn't work. The executive architect could not figure out how to turn Gehry's daring vision of curved, flowing forms into something that could feasibly be built. The project stalled before construction even began. To observers, it seemed that fears about his ability to deliver were justified. Gehry felt like he was shouldering the responsibility—and blame—without having the power to fix things.

The project languished for 10 years, during which Gehry both won and completed the Guggenheim Bilbao project. Then Eli Broad, the billionaire philanthropist, led a push to revive the Los Angeles project but maintained the stipulation that Gehry would provide initial design work only. Gehry responded with a public resignation from the project, and at that point, Diane Disney Miller—daughter of Lillian and Walt—intervened. "We promised Los Angeles a Frank Gehry building, and that's what we intend to deliver," she declared. There would be no further funding from the Disney family if Gehry was not kept on as the architect. Broad backed down, and in 1999, more than a decade after he won the commission, Gehry was finally given free rein over the project.

With Gehry at last in control, the project took off and was completed four years later at a cost that met the budget set when he took the helm. Like the Guggenheim, it was dazzling. "Few buildings in the history of Los Angeles have come burdened with greater public expectations than the Walt Disney Concert Hall. None has lived up to such expectations so gracefully," wrote the *Los Angeles Times'* architecture critic Nicolai Ouroussoff. "It should be ranked among America's most significant architectural achievements."

Frank Gehry's long struggle to create the Walt Disney Concert Hall taught him something fundamental. Control was indispensable. He had to have it, and keep it, from beginning to end. He even coined a term for the setup he needed to be in control—"the organization of the artist"—with the creatives, that is, Gehry and his team, in charge. He has enforced this setup on every project since Disney Hall. It's a root cause of his success.

The form of his salvation taught him something else as well: If those in positions to grant power trust the project leader, she will have power; if they don't, she won't. As we'll see, the process Gehry follows to take a project from an idea to a finished building has many virtues. But underlying all of them is the fact that his process is based on trust. Trust produces power—and power gets projects done.

Always Ask Why

In 1991, when Gehry was invited to join the project that became the Guggenheim Museum Bilbao, regional government officials acting as the client knew what they wanted. In the center of Bilbao, there was a huge old building with impressive towers and arches that had once been a wine warehouse. The officials wanted to transform it into a dramatic space for modern art and have the Guggenheim Foundation run it.

With such a clearly defined project, another architect may have treated this as a simple choice: either accept or pass. Gehry did neither. Instead, he did what he does with every potential client. He asked questions, starting with the most fundamental: "Why are you doing this project?"

What Gehry heard was that Bilbao is the heart of the Basque Country and was once a hub of heavy industry and shipping. But that was in the past. "Bilbao was not quite as bad as Detroit, but almost," Gehry recalled several years later. "Steel industry gone. Shipping industry gone. It looked pretty sad." Spain had an enormous tourism industry, but few people had even heard of Bilbao, let alone thought of going there. The officials told Gehry they wanted the museum to do for Bilbao what the Sydney Opera House had done for Sydney—give the city international prominence, draw tourists from around the world, and boost the economy.

That was a lot of weight for any project to carry, and it was hard for Gehry to see how the project envisioned by the officials could deliver what they wanted. Although he liked the building they had selected, it wasn't well suited to be a space

As open and fluid as Gehry's process is, it is not formless. Everything from the building's relationship with its surroundings to the width of a windowsill has been subjected to scrutiny. I

for modern art. And when had a renovation ever had such a transformative effect? But understanding the goal of the project helped Gehry form a different vision that his clients could buy into. Gehry found a derelict site on the riverfront, next to a spectacular bridge, just like the Sydney Opera House. Build something audacious there, he suggested.

Far too many projects proceed on the basis of undiscussed assumptions. That's dangerous. As the old adage has it: "Don't assume. Verify." Gehry does this by asking why. Assumptions may mask disagreements about a project's ultimate goals. As a result, the initial conception of the project may be off. And without clear agreement on the goal, it will be at greater risk of wandering off course when it encounters inevitable problems and complications. By starting projects with meaningful questioning, and by carefully listening to the answers, Gehry figures out what the clients really want rather than what they think they want. As Meaghan Lloyd, Gehry Partners' chief of staff, told us: "Sometimes he produces something for the client that they don't realize they want because [he] listens so well."

Starting with questions, and really listening, is unnatural. As the Nobel-laureate psychologist Daniel Kahneman has shown, people suffer from availability bias, letting their thinking rush ahead on the basis of whatever information they already happen to have. Gehry's questions put a stop to that. "You're being curious," Gehry says. "And that curiosity leads to invention."

It's a skill Gehry developed in the 1960s, when he had marital problems and joined group therapy sessions where he took note as others revealed their inner turmoil. "I was able to dismantle the wall I had built around myself," he told a biographer. "I began to listen. I don't think I had ever listened before. But I heard what people were saying, heard it clearly. The more I listened, the more interested I became in them."

So when real estate developer Bruce Ratner approached Gehry in 2004 to build a 50-story high-rise on a site in lower Manhattan, Gehry asked him why he wanted to do that. What Gehry heard was that the project wasn't only a business proposition: Ratner wanted to make a prominent addition to the world's most famous skyline. In that case, Gehry told Ratner, the project needed to be taller. Ratner accepted but then lost his nerve during the 2008 financial crisis, when he wanted to erect a building only half the size. Gehry insisted on the original vision, and when the 76-story building at 8 Spruce Street opened in 2011, it was the tallest residential tower in the Western hemisphere and "the finest skyscraper to rise in New York since Eero Saarinen's CBS Building went up 46 years ago" according to the *New York Times*. And it never would have happened if Gehry hadn't asked "why" and listened to the response.

Gehry doesn't always push for the grand scale. When Luma, an arts foundation based in Arles, France, the city famous for Vincent van Gogh, asked Gehry to design its central building, his vision was down-to-earth and practical: a low, horizontal building that could display artwork of widely disparate types and sizes that would have to be shuttled in and out. But the foundation's head, Maja Hoffmann, wanted more of a landmark: a "lighthouse" tower that could be seen far and wide. Together, the two developed a synthesis—a low, circular, glass base topped with a stunning, multifaceted stainless-steel tower that sparkles with reflected light. The result is both practical and beautiful. It's also a testament to the power of collaboration.

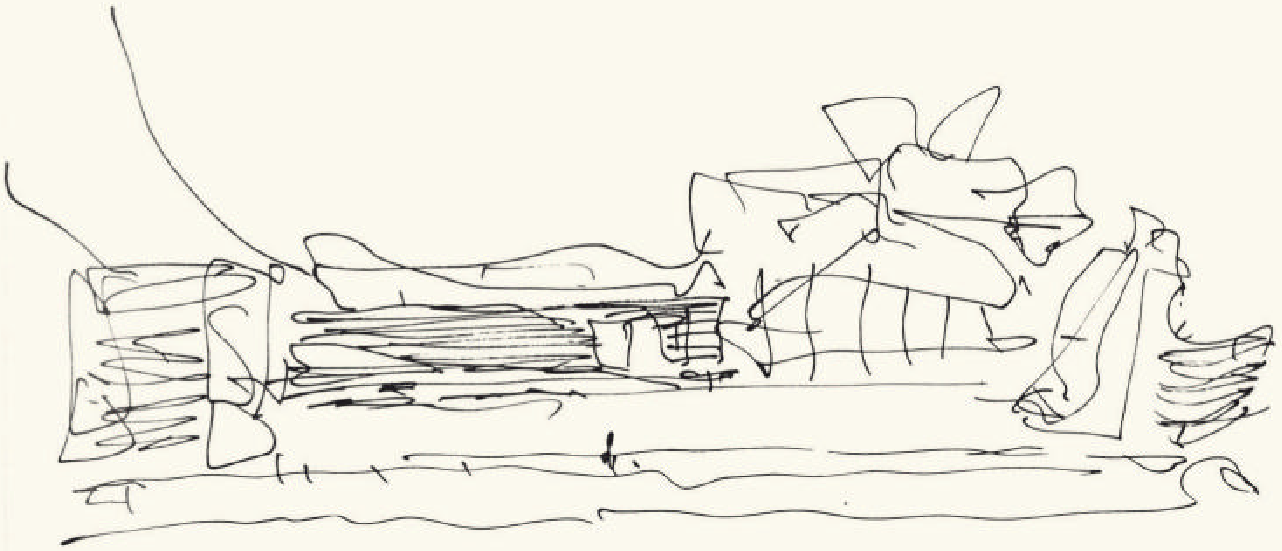
Simulate, Iterate, Test

When prospective clients come to Gehry's firm, they are walked through the development of past projects so that they understand Gehry's process. That's crucial because the discussion to shape the project's initial conception is not the end of their involvement. It's the beginning. "Some people aren't up for it," notes Lloyd. "It takes a brave person to work with us."

In designing Ratner's Manhattan skyscraper, for example, Gehry started by "playing"—his description—with ideas in various media: doodles on paper, crude models with paper and wood, images on a computer. Initially, he imagined a twisting tower, like a long piece of licorice, and he played with many variations of that. But he worried that it wouldn't give people the feeling of solidity that they needed to live comfortably in a Manhattan skyscraper not many years after the 9/11 attack. So he moved on to other ideas, trying one, then another, and another.

At last, he hit on the idea of a rectangular tower with a facade made of stainless steel and glass that would bulge and recede in order to create the illusion, at a distance, of

PROJECT MANAGEMENT



Design sketch, Guggenheim Museum Bilbao, 1991

RGR Collection/Alamy Stock Photo

cloth rippling in the wind. Many more iterations followed. Finally, they decided they had what they wanted. It was the 74th iteration.

In doing this work, Gehry collaborates with others to create models and digital simulations, and he constantly asks for candid judgments. This is not pro forma consultation. Gehry gives feedback serious consideration and adjusts his work accordingly. Then he seeks further feedback.

It helps that Gehry seldom, if ever, speaks in high-flown theoretical terms, despite having studied art and architecture deeply. He is blunt. He expects the same in return. "Our communication is very basic and mostly visual, and there's not a sophisticated language that we use," says Craig Webb, a partner in Gehry's firm. They look at models and say, "That's good" or "That's bad" or "I don't like it." Ideas that work are kept; those that don't, go. The work takes priority over any bruised feelings.

But it's one thing to imagine, sketch, and model a skyscraper whose facade looks like billowing cloth. It's quite another to design one that can be built. For the 8 Spruce Street project, there was a major additional constraint: The client had stipulated that the total cost had to be roughly comparable to a standard skyscraper.

Solving this puzzle would have been impossible without CATIA, a computer-modeling technology modified from software originally created to design aircraft by the French aerospace giant Dassault. Gehry recognized long before most that if computer modeling were pushed to extremes, it could revolutionize design and construction by allowing architects to engage in relentless iteration and testing of every imaginable form, including curves that had once been impossible to build reliably.

The result would be digital models that precisely mimicked the future building, providing exquisitely detailed plans that could be used by everyone from manufacturers to builders to operators. Starting with the Golden Fish sculpture designed for the 1992 Olympic Games in Barcelona, digital models have been key to all of Gehry's designs, long before anyone came up with the term "digital twin."

Central to Gehry's vision for 8 Spruce Street was its billowing facade. To design it, Gehry and his team modeled it piece by piece, painstakingly examining the implications of every design choice for the exterior facade, the interior apartments, and the cost of manufacturing and installation. The steel manufacturer took the resulting plan and produced the pieces, which were brought to the construction site and assembled like an immense, vertical jigsaw puzzle.

"If you were to do this [design work] by hand, you might get two or three tries within the allowable design period," notes Tensho Takemori, an architect at Gehry's firm. But thanks to digital simulation, "we had thousands....And because of that, we were...able to reduce the cost to almost the same as a flat curtain wall. The proof is there were no change orders, and that's a pretty unheard-of result for a 76-story tower."

As open and fluid as Gehry's process is, it is not formless. At various points, decisions are locked in. Work then proceeds on the next stages. The overall effect is to move smoothly from big ideas at the grand scale (What about a skyscraper twisted like licorice?) to increasingly fine-grained details (How do we design this window?). As a result, everything from the building's relationship with its surroundings to the width of a windowsill has been subjected to severe scrutiny. It's a long, exhausting process, but the resulting plan isn't only unusually detailed. It is unusually reliable.

The client is involved throughout. "It's a discussion," Gehry says. "That's why the model-making thing is great, because they can see it as we develop it, and understand what I'm agonizing about." Gehry is seldom perfectly happy with anything. "I'm very open about that," he says, and he frankly shares what he likes and what he doesn't. He wants the same candor from the client, and when he gets it, he listens intently and synthesizes the client's thinking into

8 Spruce Street, New York, New York

Don Emmert/AFP via Getty Images

> Gehry's team spent two years thinking through and simulating every detail, in effect building the museum on computers before they built it in reality.

his own. "They see they're involved," Gehry says. "They're invited into my thinking process. So they can see stuff. And they can say, 'Oh no, I would never do that.' They can feel like part of it. They see the evolution. I find that very powerful."

At key stages, when the project must commit to design decisions before work advances, the client must give approval. In this way, the design is enriched and strengthened by the client's perspective, while the meeting of minds that begins the project continues, iteration after iteration, following the maxim, "Try, learn, again."

Think Slow, Act Fast

Gehry's process asks much of everyone involved. It also consumes a great deal of time. For project proponents eager to have something to show for their efforts—and get to the finish line—extended planning can be frustrating, even unnerving. For them, planning is pushing paper, something to get over with. Only digging and building are progress. If you want to get things done, they think, get going.

This sentiment is easy to understand. But it is wrong. When projects are launched without detailed and rigorous plans, issues are left unresolved that will resurface during delivery, causing delays, cost overruns, and breakdowns. A scramble for more time and more money follows, along with efforts to manage the inevitable bad press. With leaders distracted in this manner, the probability of further breakdowns—more scrambling, more delays, more cost overruns—grows. Eventually, a project that started at a sprint becomes a long slog through quicksand.

A dramatic example of this dynamic is the tragic story of the Sydney Opera House and the young genius who designed it. Like Frank Gehry, Jørn Utzon was an architect of rare vision. To win the competition to design the project, he had submitted an entry that was little more than a few sketches—the art critic Robert Hughes called them "a magnificent doodle." But because of political pressure to complete the project, construction began before Utzon could figure out exactly how to deliver on his sketches. Costs rose rapidly from the get-go. Completed work even had to be dynamited and cleared away to start again. In 1966, Utzon was pushed out and replaced, with his famous roof shells barely erected and no interior work done. When the Opera House finally opened, in 1973, it was acoustically unsuited for opera and flawed in many other ways. Scheduled at five years, the project had taken 14. The final bill was 15 times the budgeted amount, one of the biggest overruns in history.

By contrast, the Guggenheim Bilbao, a building no less innovative and complex than the Sydney Opera House, took four years to build—exactly as forecast—because Gehry and his team had spent two years up front thinking through and simulating every detail, in effect building the museum on computers before they built it in reality.

Gehry's planning process may burn considerable time and feel slow, but overall his approach is much faster. And cheaper, because planning and delivery costs are wildly asymmetric: Spotting and correcting problems with the 8 Spruce Street facade by making thousands of iterations on a computer may not have been cheap in an absolute sense, but it cost a small fraction of what it would have to fix the same problems had they been discovered during installation. Relatively speaking, planning is cheap, delivery is expensive. And taking the time to think through the design means you can act much faster later.

RULES LIKE THOSE we describe here attempt to convey meaning that can never be entirely put into words. Gehry's modest early projects and experiments with materials are worlds away from his masterpieces of modern architecture, yet, in a fundamental sense, he built the latter on the tacit knowledge garnered from building the former. Those who lack experience with following rules of this kind must keep that limitation in mind. The rules indicate directions of travel, but they are not road maps. To bring them fully to life, and to make decisions as adeptly as true experts like Frank Gehry, you must cultivate the underlying tacit knowledge the way Gehry did: by doing.

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BENT FLYVBJERG *is the BT Professor and Chair of Major Programme Management Emeritus at the University of Oxford's Saïd Business School and the Villum Kann Rasmussen Professor and Chair at the IT University of Copenhagen.* **DAN GARDNER** *is the author or coauthor of three books, including* Superforecasting, *with Philip E. Tetlock. Flyvbjerg and Gardner are the coauthors of* How Big Things Get Done *(Random House, 2023), from which this article was adapted .*

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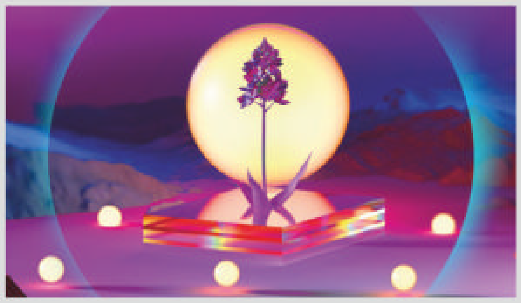

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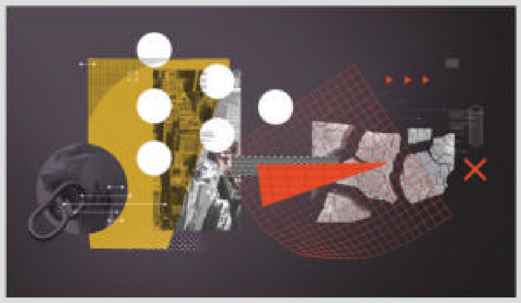

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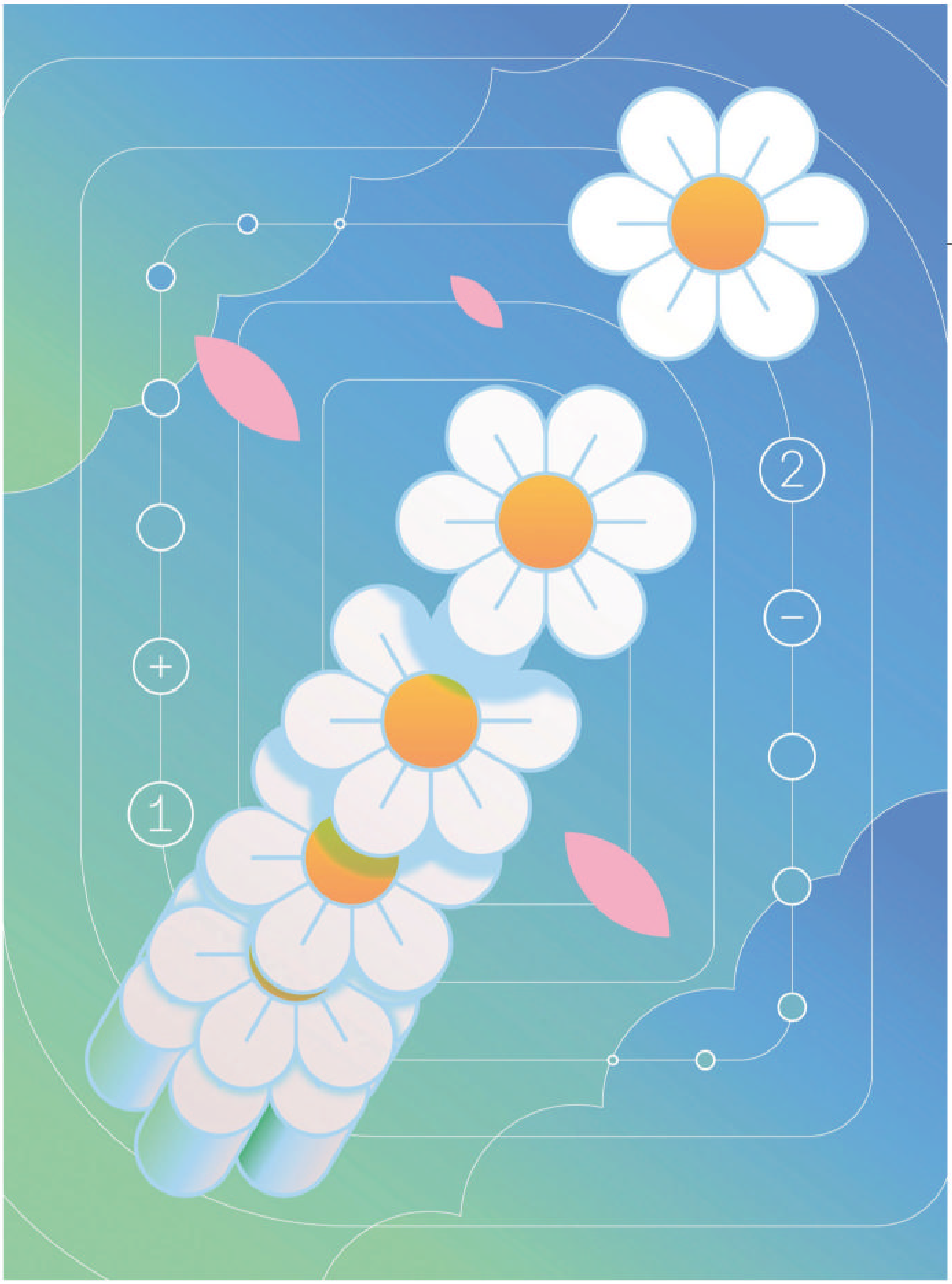


MANAGING YOURSELF

Cultivating the Four Kinds of Creativity

How people and organizations use them all to innovate

by Gabriella Rosen Kellerman and Martin E.P. Seligman

ONE ISLAND OF stability in the sea of conversation about the future of work is the conviction that our jobs will become increasingly creative. The World Economic Forum, McKinsey, and nearly every major think tank seem aligned around this hypothesis, offering heaps of data to support it. The trend is not just about the delegation of rote tasks to automation; it's also about the accelerating pace of change and the increasing complexity of business, which demand original responses to novel challenges far more frequently than ever before.

Many companies now include creativity as a core competency for employees at all levels—especially those on the front lines—and across all functions, from sales and marketing to accounting and operations to customer service. Individuals and talent managers must therefore get smart about

Illustrations by **DANIEL CREEL**

Most of us tend to think in just one of four ways, and we benefit from knowing which one comes naturally to us.

what it takes to foster and manage this skill. Although the science of creativity is young compared with other areas of psychology and cognitive neuroscience, our growing understanding of it points to new directions for creative development. In this article we offer a typology that breaks creative thinking into four types: *integration,* or showing that two things that appear different are the same; *splitting,* or seeing how things that look the same are actually different or more usefully divided into parts; *figure-ground reversal,* or realizing that what is crucial is not in the foreground but in the background; and *distal thinking,* which involves imagining things that are very different from the here and now.

Most of us tend to think in just one of these four ways, and we benefit from knowing which one comes naturally to us. We can also learn to hone our creativity in the other dimensions. Managers need to understand both their own strengths and how to balance the types of thinking across their teams to execute creative projects. And organizations can use this typology to increase innovation across the workforce.

INTEGRATION

Integration may be local—stitching together a few concepts—or sweeping: a grand unifying theory.

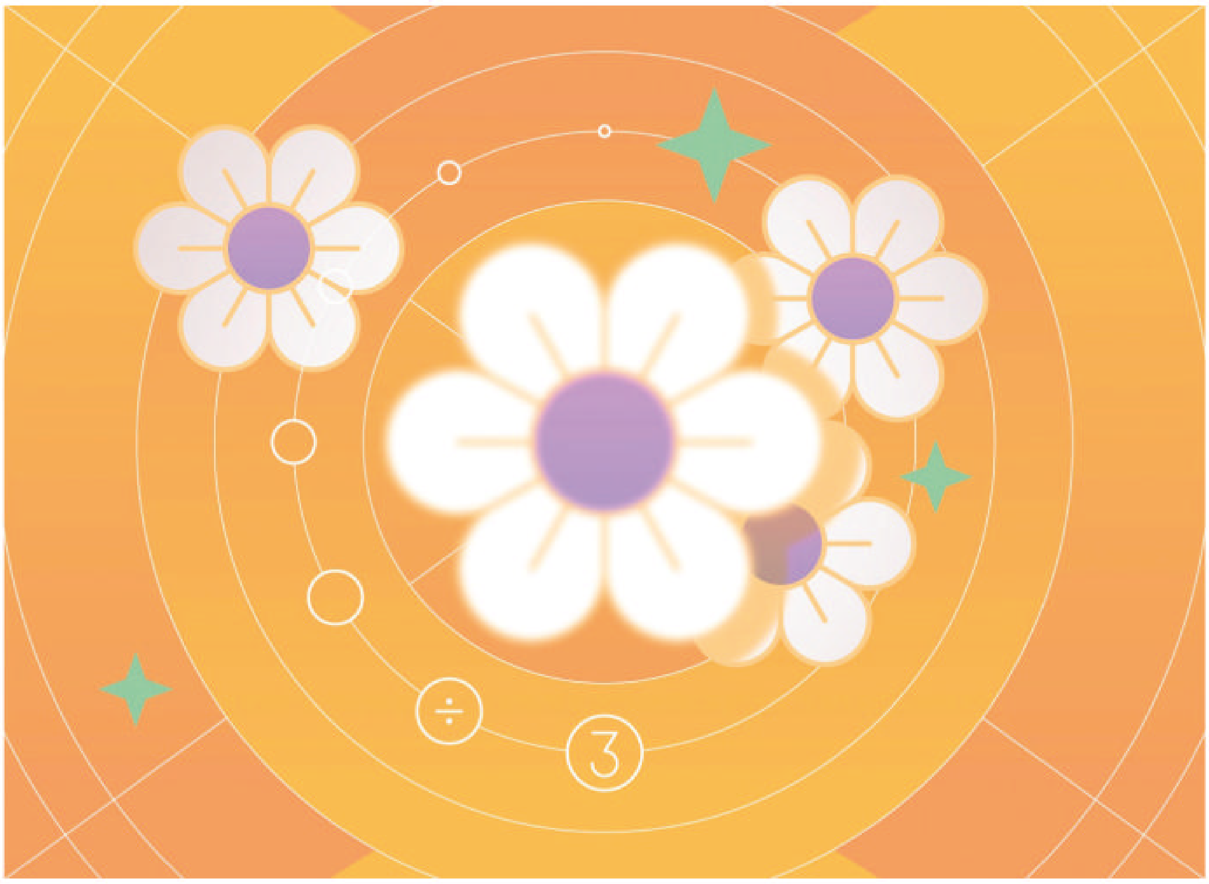
The 17th-century mathematician Isaac Newton was a genius at integration. After coinventing calculus, itself enormously integrative, he happened upon the idea that would make him even more famous. The story does involve an apple, but it didn't fall on his head. Instead, looking out a window one night, he noticed that a two-inch piece of fruit on the ground 20 feet from him occupied the same amount of visual space as did the faraway moon. He wondered not about the trick of perspective but whether the force drawing the apple to the ground was the same as what held the moon in orbit—an idea that gave rise to his inverse square law: that the gravitational attraction between two bodies is inversely proportional to the square of the distance separating them. Integration is often at the heart of scientific discovery.

It's also a key form of corporate innovation today. Consider the Apple iPhone. Its designers' success lay in recognizing that when tools such as cameras, phones, and music players are digitized, they are all capturing, storing, retrieving, and transmitting data in the same way, through semiconductors and liquid crystal displays; therefore, they could be combined in a single device—perhaps the most powerful tool now at our disposal. Four decades ago the phone hanging on your wall had nothing to do with the boom box sitting on your console or the camera filled with film you'd soon drop off for developing.

How does integrative creativity show up in everyday work? Let's consider a hypothetical office-supply retailer, Capella Paper, that wants to attract more Millennial customers. Jerome, an email marketer, is an employee working on the problem. He finds several studies showing that professionals in their twenties and thirties are vocal advocates of preserving hybrid or remote working arrangements postpandemic. He hypothesizes that two groups Capella treats as distinct—Millennials and remote workers—may in fact align as buyers of office supplies. Jerome retrieves an analysis by his team on a spike in home-office purchases in the spring of 2020 and looks to see which email promotions—all targeting newly remote workers—were most successful in that period. He selects an old promotion offering free printer-toner refills with bulk paper purchases and makes a few tweaks for the new target demographic, resulting in a 35% higher click-through rate compared with the company's average for Millennial customers.

SPLITTING

The opposite kind of creative thinking is splitting, and the history of science is full of examples. The periodic table of the elements splits earth, air, fire, and water into 118 parts. Medical breakthroughs regularly result from the separation of what was thought to be a single disease into several, each of which can be more precisely treated. One of the greatest manufacturing innovations of all time—the assembly line—involved splitting. Before the Industrial Revolution, one craftsperson might oversee the production of a good from start to finish. Guns, for example, were made by individuals skilled in both woodworking and metalwork; the same was true of steamer trunks and clocks. But then the Swedish inventor Christopher Polhem introduced the concept of interchangeable parts, which could be made separate from a whole and used for a wide variety of products. At first many people were skeptical: When, in 1785, the Frenchman Honoré Blanc publicly



demonstrated that he could assemble a working gun by selecting components from a large pile of interchangeable parts, audience members were shocked. This idea led to further division—of human labor—allowing for faster, more consistent, and scalable manufacturing that is still in use today.

A more recent application is quantum computing, an important application of particle physics, which breaks matter down into its smallest components. Whereas in classical computing a bit can occupy only a single position, quantum computing's qubit can occupy multiple positions simultaneously, exponentially increasing computing power. In 2019 Google's quantum processor Sycamore took 200 seconds to finish a task that would take a classical computer 10,000 years to complete.

This type of creativity can be useful in many professional scenarios. Back at Capella, for example, a product manager, Carmen, has been studying which of the company's offerings are most popular with Millennials. She first separates consumer buyers from business buyers; the latter typically purchase for their small companies. Business buyers can be further divided into people who order a variety of supplies and whose purchases are waning, and those who buy just one or two products in large amounts and whose orders are holding steady or even increasing. Focusing on this second group, Carmen arrives at her "aha" by zeroing in on the product most frequently purchased by 30-something business buyers: Capella's trademark 6" x 8" grass-cloth-bound notebook. Through interviews she learns that people buy this item for two reasons: for note-taking by employees and for client gifts. Because Capella sells the notebooks only in bulk to businesses, they have become coveted. With that insight Carmen pitches a new line of luxury notebooks in a wider range of sizes and colors, available to both individual and commercial buyers with an option to emboss initials or a corporate logo on the cover. Thus a single product is split into several lines for distinct purposes.

FIGURE-GROUND REVERSAL

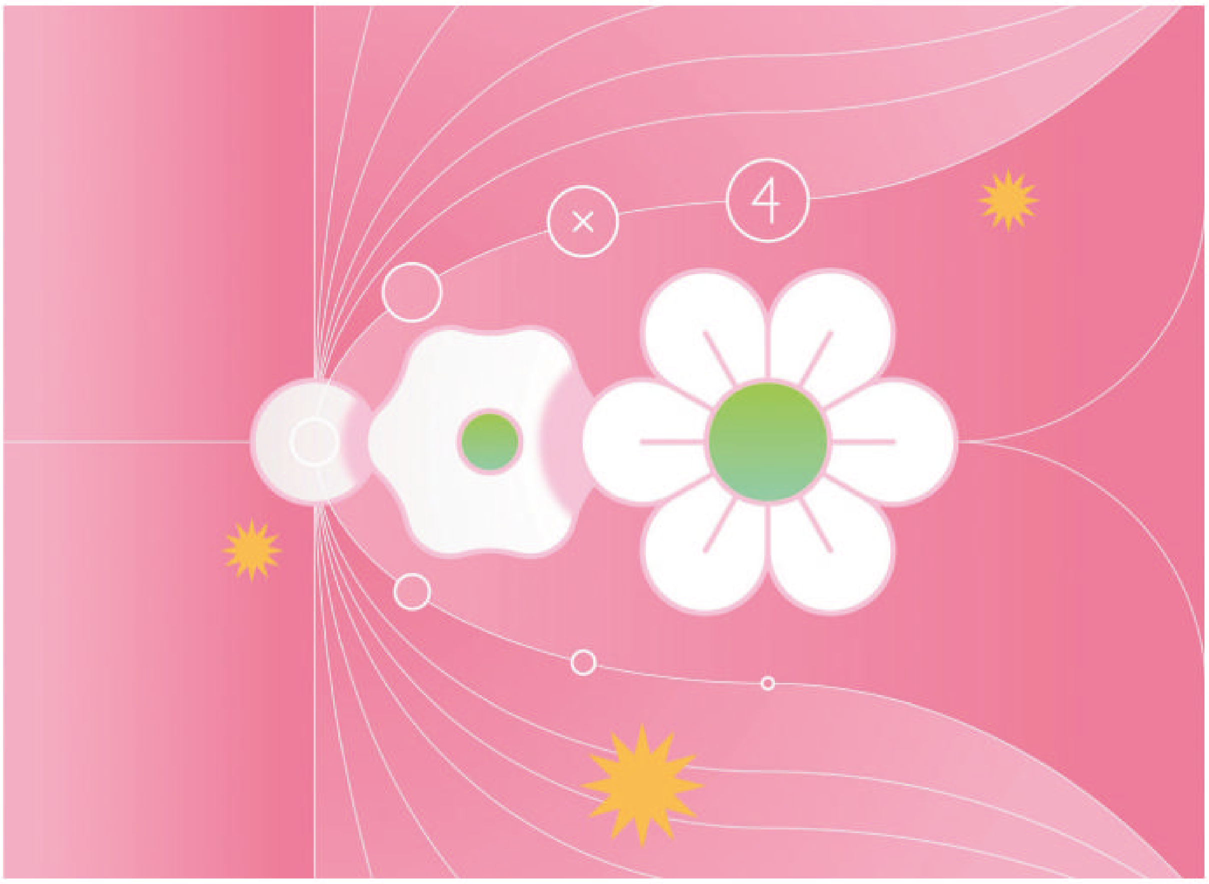
The term "figure-ground reversal" comes from the study of vision and refers to our ability to shift focus from the foreground to the background to produce a radically different picture. The well-known black-and-white silhouette of two faces in profile—or a vase in the middle—demonstrates how our minds can toggle back and forth between the two.

One of the most important neuroscientific discoveries of our lifetime was the default mode network, a set of brain regions involved in our mental downtime, and it happened owing to an accident of figure-ground reversal. Functional-imaging researchers were mapping the brain's "task positive" networks—the regions that light up when we engage in focused activities such as solving anagrams and listening to lectures. In most of those experiments a control condition consisted of rest periods, during which the brain might be expected to go dark and quiet. Instead, scientists across numerous studies found that certain midline and medial-temporal-lobe brain structures consistently lit up during rest, suggesting not stasis but vibrant activity. We have since learned that the same thing happens when we daydream, and what we do during those periods is imagine and plan. Researchers weren't trying to find the state in which we do some of our best thinking, but they did.

Here's another example of figure-ground reversal: In 1957, when the Soviet space program launched *Sputnik,* the first satellite to orbit Earth, the U.S. military used two widely separated points on Earth to track *Sputnik*'s speed and position by means of the Doppler effect. But only in 1958 did it become clear that the far more profound application of the technology was for the exact opposite purpose: using points in space to track objects on Earth. In that year the Advanced Research Projects Agency developed Transit to calculate the position and speed of any moving object using two widely separated satellites in space. Today we know this technology as the Global Positioning System, or GPS.

We see figure-ground reversal all the time in industry, too. Amazon Web Services was developed in response to Amazon's need to scale up its infrastructure. The software developers Chris Pinkham and Benjamin Black, who led the work, realized that others would want the solution they were envisioning—that it could be a compelling product to offer externally. Today AWS is a foreground business for the company, accounting for $45 billion in revenue in 2020. Similarly, Slack, the ubiquitous messaging platform, started as an internal product to help Stewart Butterfield's company Tiny Speck develop a video game. That business fizzled out, but the team pivoted to the messaging app, and Slack went public in 2019. In 2021 Salesforce bought it for close to $28 billion.

Imagine that Robert, a manager at Capella's Chicago store, has just returned from a leadership meeting where he learned about the company's push to attract Millennial customers. Over the next several weeks he spends time observing patrons' shopping habits in the store. He focuses on customers in professional attire who appear to be in their late twenties or early thirties, but he sees very few of them, and he can't identify any particular patterns in what they're buying. Though Robert normally works weekdays, he's called in one Saturday to cover for a colleague and continues his observations. At first he doesn't see anyone in his target demographic, but then he recognizes a repeat customer from earlier in the week, this time not in business casual but dressed down and shopping with what appears to be his school-age daughter. Robert realizes that he's overlooked a half dozen other Millennials that day alone because they were shopping not as professionals but as parents and were consistently looking for art and school supplies. He decides to stock those items in the middle aisles, with office supplies flanking them, and within a few months his store leads the region in sales to the target demographic. Robert explains to Capella's leaders that it came down to focusing on the broader, whole-person context of Millennials' lives.



DISTAL THINKING

Finally, distal thinking involves imagining things as very different from the present. Many a creative genius has been characterized as someone who envisioned a radically new future that the rest of us initially couldn't see. The inventor Nikola Tesla, for example, once described his process as building and refining an object entirely in his imagination—even operating it in his mind. His distal brainchildren included the radio, the neon lamp, AC power, and hydroelectric power.

Sometimes innovators think so far ahead that the market isn't ready for their ideas. The computer scientist and cryptographer David Chaum invented anonymous digital cash in a 1983 paper, just as personal computers were coming into vogue, and well before access to the internet was ubiquitous. In 1994 his company, DigiCash, sent the first electronic payment. But the economic and technological ecosystem needed to support widespread adoption of digital currency did not yet exist, and DigiCash folded in 1998. Like many other first movers, Chaum paved the way for followers but benefited from only a small fraction of his invention's success.

More-successful distal innovators bridge the gap between the present and the future in one of two ways. The first is by accelerating market maturity, through promotions, partnerships, and focused launches. An example of this

Distal thinking involves imagining things as very different from the present. Many a creative genius has envisioned a radically new future that the rest of us initially couldn't see.

is another digital-payments company, PayPal. When it launched, in 1999, adoption of its full slate of intended uses was low. So rather than try to advance an ambitious vision before consumers were ready, the company focused on developing its user base through eBay, a platform where such payments were becoming the norm. The symbiosis was so perfect that eBay acquired PayPal in 2002, but within a decade, as PayPal usage expanded well beyond its parent company, the entities split. Today PayPal is used in 200 countries, and its 2021 revenue topped $25 billion.

A second way distal innovators help their radical vision ultimately become reality is with "backward" innovation—developing intermediary technologies that are immediately marketable and will move stakeholders along the maturity curve toward readiness for the actual invention. Take self-driving cars, which exist but aren't yet prevalent for many reasons, including technological, infrastructure, and regulatory barriers. Another obstacle is consumer mistrust: Drivers are not yet ready to hand over the wheel. Thus we see stepping-stone products such as cruise control and automatic parking. These are incremental offerings that people *will* use and that should make them more comfortable with a driverless future.

The electric car company Tesla logged a distal win by selling EVs as luxury purchases before the economics worked to make more-mainstream models. It is now trying to pave the way for fully autonomous vehicles by offering precursors: both traditional autopilot and something called "full self-driving capability," which gives the car even more control. Led by its creative founder, Elon Musk, Tesla is training us to eventually embrace a previously unpalatable vision.

Even in organizations where innovation is more incremental, distal thinkers can often find big challenges that offer them a chance to shine. Piper, a Capella designer, has for years been asking her managers how the company will operate when offices are entirely paperless. Encouraged by the new mandate to attract Millennials, she describes her vision of this future: eco-conscious digital natives operating in a fast-paced, mostly virtual work environment who will eschew office supplies for fully online tools. And yet, Piper says, many will still want physical products that link to the digital world for promotional or commemorative purposes. She describes a new line of memorabilia to honor project progress: commercial-real-estate "deal toys" with screens that change as the building is constructed, or customer-appreciation plaques with displays that show up-to-date utilization metrics of marquee software products the customer has purchased. Piper's pitches make Capella think bigger and more boldly about what this demographic needs and demonstrate her unique ability to help the company get ahead of industry trends.

HOW TO PROCEED

Which type of creativity do you use the most? Each one offers a unique advantage—and potential blind spots. Integrators may try to see synergies where they don't exist, while splitters may overcomplicate a simple solution.

Understanding your strengths as an individual is the first step. Look for places to apply them and watch out for overuse. At your next opportunity to innovate, push yourself to think in the styles that come less naturally to you. Before you settle on a path forward, challenge yourself to define at least one option for each of the four styles.

If you lead a team, how do you complement your skill set with other types of creative thinkers? When receiving proposals from your team, do you get options that explore all four forms of innovation? If not, ask for them.

At the organizational level, reflect on your business's recent innovations, both internal and external. Do any patterns emerge? Are your products typically the result of splitting, for example? Or integration? When was the last time you capitalized on a figure-ground reversal? Do you have enough distal thinkers in your midst who are pushing others to expand their thinking? How often are hiring managers considering the mix of innovation types on teams as they grow?

Creativity is an imperative for our new world of work. Cultivating all four types of divergent thinking at every level will afford greater odds of converting each new challenge into successful innovation.

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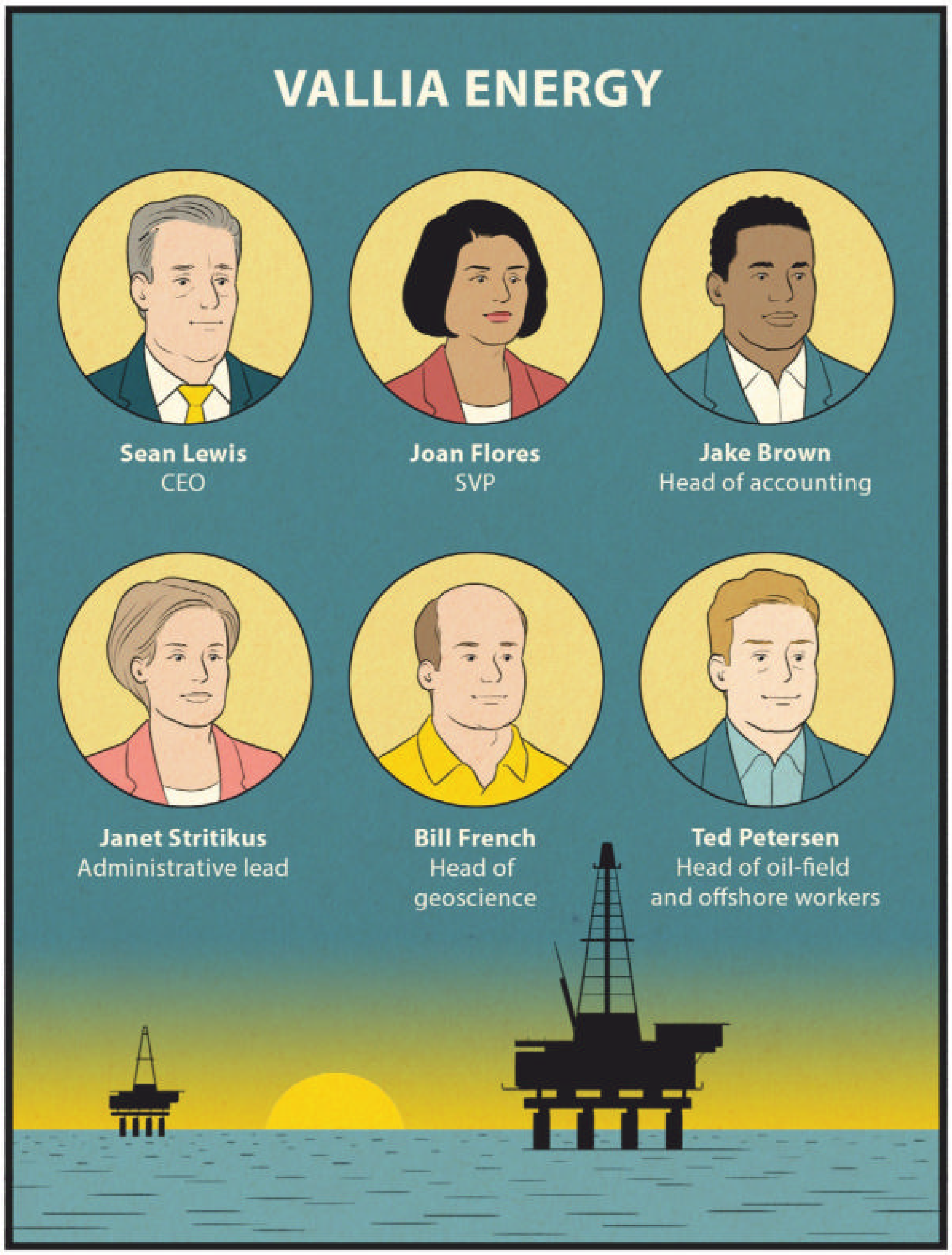
GABRIELLA ROSEN KELLERMAN *is a physician, the chief product officer, and the chief innovation officer at BetterUp, a coaching platform in San Francisco.* **MARTIN E.P. SELIGMAN** *is the Zellerbach Family Professor of Psychology at the University of Pennsylvania and directs the Penn Positive Psychology Center. This article is adapted from their book* Tomorrowmind *(Simon & Schuster, 2023).*


VALLIA ENERGY
Sean Lewis
CEO
Joan Flores
SVP
Jake Brown
Head of accounting
Janet Stritikus
Administrative lead
Bill French
Head of geoscience
Ted Petersen
Head of oil-field and offshore workers

After weeks of planning for postpandemic times, Sean asks Joan to hit pause on their return-to-office mandate.
Joan
DON'T SEND THE BACK-TO-THE-OFFICE MEMO!

Case Study

Should Some Employees Be Allowed to Work Remotely Even If Others Can't?

by Mark Bolino and Corey Phelps

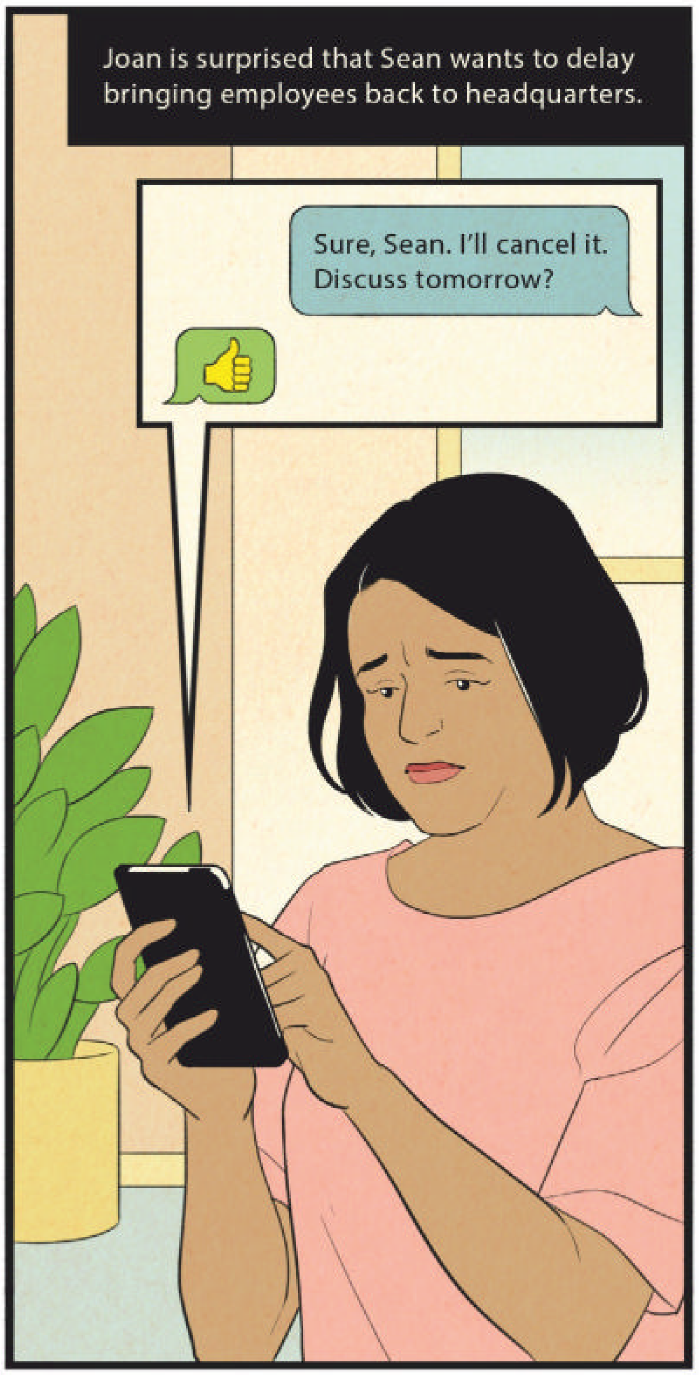
HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on a case taught at the University of Oklahoma's Price College of Business.

SEAN LEWIS, THE CEO of Vallia Energy, stared at the message screen on his phone and prayed for three little dots.

"DON'T SEND THE BACK-TO-THE-OFFICE MEMO!" he'd written to Joan Flores, the senior vice president who managed their corporate space. For weeks he and Joan had been planning a return to the office for the 3,200 employees who worked at the oil and gas company's headquarters in Oklahoma City. More than two and a half years earlier, at the outset of the Covid-19 pandemic, those staff members (around 65% of the workforce) had begun doing their jobs remotely. Though some had trickled back into the office on a voluntary basis, Sean, unlike his competitors, had still not mandated that everyone return. Now, with vaccines and therapeutics widely available, it felt like the right time to reassemble the HQ personnel. They'd been productive during the pandemic, but Sean worried that Vallia was missing out on collaboration and, as a result, innovation.[1]

He was also concerned about the brewing discontent of Vallia's roughnecks—the workers who labored on the drilling rigs and in the oil fields and who had been

Illustrations by **ANUJ SHRESTHA**


Joan is surprised that Sean wants to delay bringing employees back to headquarters.
Sure, Sean. I'll cancel it. Discuss tomorrow?

on-site all along. Many were disdainful of the “corporate suits” in the main office. Most had been vaccinated, but some believed that the severity of the pandemic had been exaggerated, and they didn’t understand why the office staff had stayed remote for so long. They were beginning to grumble about what they perceived to be a double standard: They were often offshore or in the field for weeks at a time, while their colleagues had the luxury of being home with their families.

Sean and Joan had never expected working arrangements to go back to a prepandemic “normal.” But they wanted to come up with a way to balance work flexibility with in-office collaboration. After a couple of false starts, they’d settled on a hybrid solution: requiring all employees to return to the office at least four days a week, while allowing people to apply for exemptions.

Throughout the process, Joan had been good-humored and patient, but Sean wasn’t sure how she’d react to this last-minute about-face. He breathed a sigh of relief when he saw her reply: “Sure, Sean. The memo was due to go out at 10 AM tomorrow. I will cancel. Let’s discuss in the morning?” Sean sent a thumbs-up emoji, but his heart sank. He felt like he was back to square one.

RETHINKING THE PLAN

“What happened?” Joan asked when she and Sean met by the food trucks at Scissortail Park.

“Jim emailed me,” Sean replied, referring to Jim Bank, the head of human resources. “He noticed that someone recently posted a link in the company wiki to a survey question: *Assume there’s a back-to-the-office mandate. What do you do?* People could choose from three possible responses: (1) I don’t have time for this survey because I’m working on updating my résumé; (2) I already have another job lined up for after bonuses are paid out; and (3) I’m moving to Hawaii to surf.”

“Come on, Sean, that doesn’t mean anything,” Joan replied. “It’s just a joke!”

“Maybe,” Sean said. “But it got me thinking. The labor market has never been tighter, and many people now love working from home. What if they’d rather quit than accept the new policy?[2] We can’t afford that risk. I’m trying to bring Vallia into the 21st century by making us digital and AI-driven and by diversifying beyond fossil fuels. That could all be derailed if we lose our best people and can’t recruit others.”

“We’ve considered other approaches for a return to HQ,” Joan reminded him.[3] When she and Sean had first started mapping out a plan, they’d envisioned requiring everyone to be in the office two or three days a week. But the company had reduced its real-estate footprint early in the pandemic, renting out a wing of its building to a medical-testing start-up. To accommodate Vallia’s returning employees in the space that remained available, Joan had proposed creating a “hot desk” or hoteling system whereby employees could reserve desks when they needed them. That idea had sparked immediate pushback: Many people wanted a more permanent workspace.

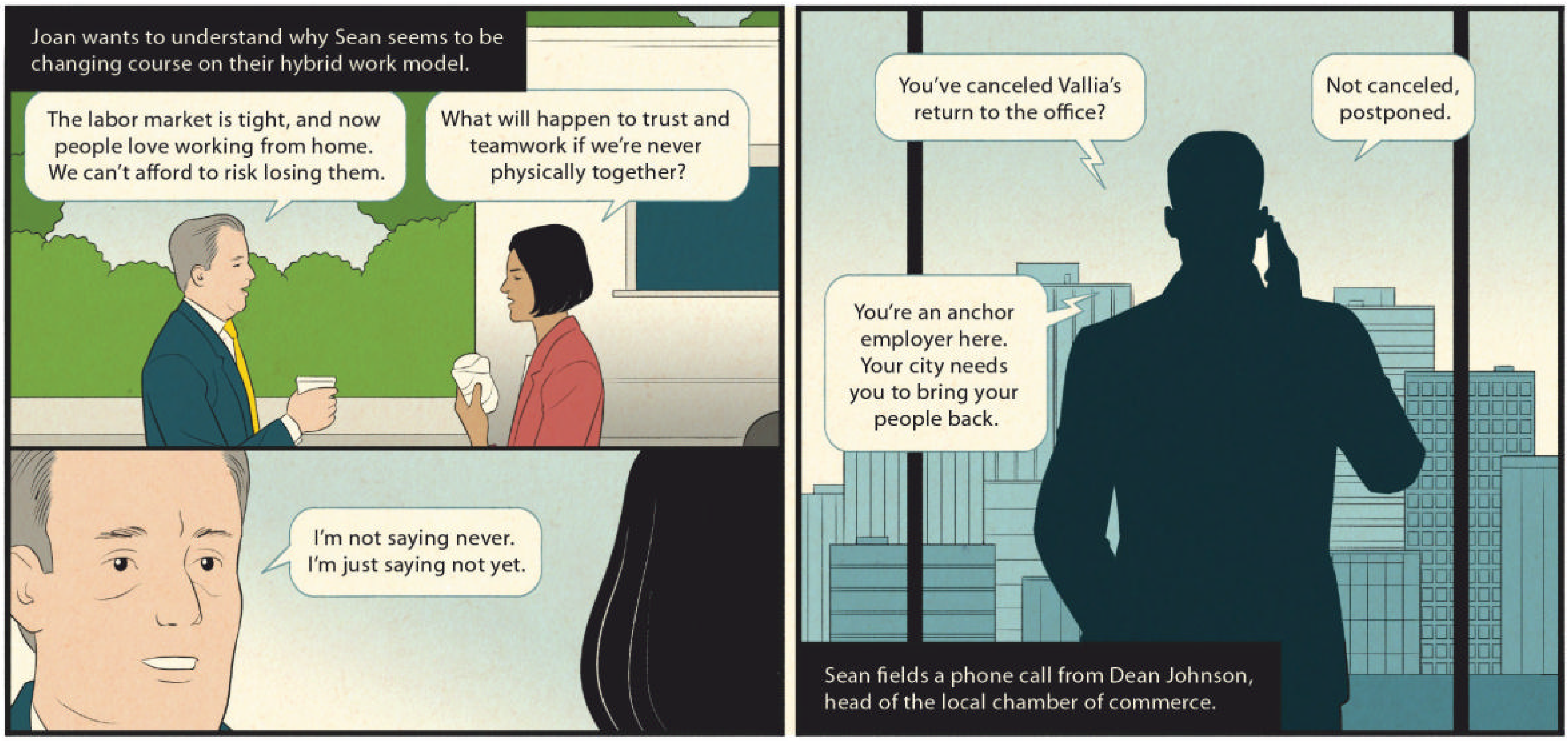
Joan had then suggested giving staffers dedicated but shared desks or offices and creating an online tool so that everyone could see which colleagues were going to be on-site on a given day. But some employees objected to sharing their workspaces. In fact, several department heads had told Sean that if working from home a few days a week meant losing their private offices, they’d rather come in every day. People had also pointed out that Vallia would lose the benefits of spontaneous

Case Study Classroom Notes

1. *A 2021–2022 Stanford study of a multinational corporation found that when employees worked from home two days a week, quit rates dropped by 35% and absences by 12%. However, a 2020 study of more than 61,000 Microsoft employees found that remote workers became more siloed.*

2. *In a 2021 global survey by ADP Research Institute, 64% of workers said they’d consider looking for a new job if they were required to return to the office full-time.*

3. *Could an employer launch a pilot or do A/B testing before rolling out a companywide return-to-work program? What are the risks and benefits of such experimentation?*


Joan wants to understand why Sean seems to be changing course on their hybrid work model.
The labor market is tight, and now people love working from home. We can't afford to risk losing them.
What will happen to trust and teamwork if we're never physically together?
I'm not saying never. I'm just saying not yet.
You've canceled Vallia's return to the office?
Not canceled, postponed.
You're an anchor employer here. Your city needs you to bring your people back.
Sean fields a phone call from Dean Johnson, head of the local chamber of commerce.

collaboration without a common schedule for everyone.

With those concerns in mind, Sean and Joan had shifted course again. They'd managed to end the leasing arrangement with their tenant and planned to bring all employees back four days a week. Both of them had been feeling confident about the decision—until Sean saw the pseudo survey.

"We aren't going to please everyone," Joan said. "It's legit to worry about folks resigning because we pull them back in. But we also have to consider whether keeping employees remote—particularly new hires and young staff—will leave them withering on the vine."[4]

Sean prided himself on being in touch with his workers, especially the next generation. For years business experts had been advising the energy sector to prepare for "the great crew change" that would result from an impending wave of retirements. To appeal to younger workers, especially those with engineering and other technical skills in high demand, oil companies were trying to shed the reputation of being old-school and part of a "dirty" industry. At Vallia, Sean was emphasizing the firm's digital transformation and its efforts to reduce carbon and methane emissions and eliminate flaring, a technique blamed for air pollution and methane leakage at small drill sites. Under his leadership, the company also touted its commitment to diversifying its workforce and supporting inclusion and equity programs in the community.

"I mean," Joan continued, "what will happen over time if we're never physically together? Trust, teamwork, knowledge transfer, a sense of belonging—these are things I worry about losing."

"I'm not saying never," Sean responded. "I'm just saying not yet. We don't have to rush this."

The pair sat in silence for a beat before Joan spoke again.

"I'm curious. What was the most popular survey answer?"

"Surf's up," Sean said, smiling wanly.

EXTERNAL PRESSURE

In his office later, Sean fielded a call from Dean Johnson, the head of the local chamber of commerce.

"Dean, I had a feeling you might reach out."

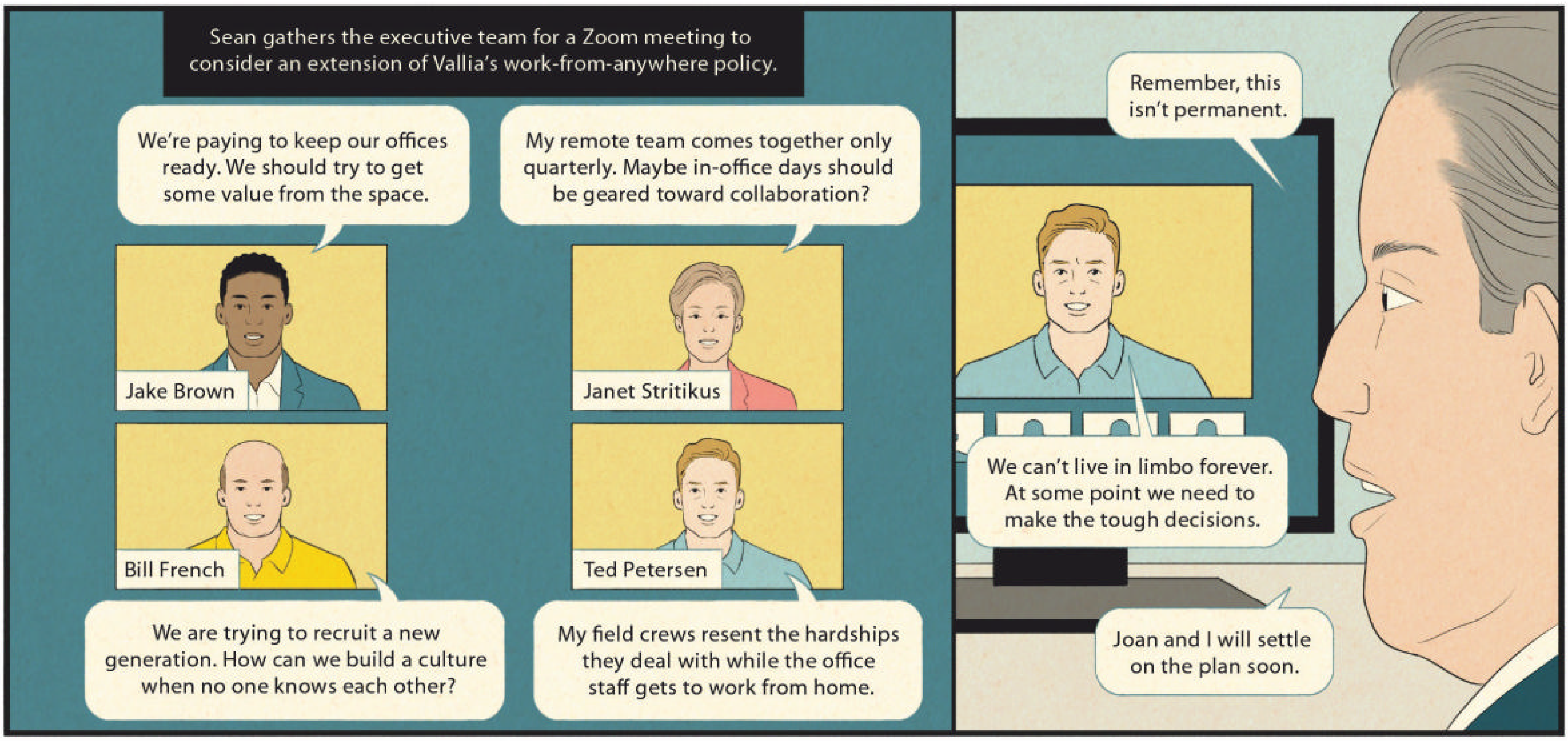
"Hi, Sean. You sound well. Which surprises me, as I heard that you've lost your mind and decided to cancel Vallia's return to headquarters."

"Not cancel," Sean said, chuckling. "Postpone."

"Well, you know how disappointed I am, speaking as the

[4] A 2020 PwC survey found that workers with less than five years of experience are especially eager to be in the office and especially likely to report feeling less productive while working remotely.

[5] Before the pandemic, according to a survey led by the University of Chicago, individual workers in some parts of the U.S. spent $12,000 to $15,000 a year on food, shopping, and entertainment near their jobs.


Sean gathers the executive team for a Zoom meeting to consider an extension of Vallia's work-from-anywhere policy.
We're paying to keep our offices ready. We should try to get some value from the space.
My remote team comes together only quarterly. Maybe in-office days should be geared toward collaboration?
Jake Brown
Janet Stritikus
Bill French
Ted Petersen
We are trying to recruit a new generation. How can we build a culture when no one knows each other?
My field crews resent the hardships they deal with while the office staff gets to work from home.
Remember, this isn't permanent.
We can't live in limbo forever. At some point we need to make the tough decisions.
Joan and I will settle on the plan soon.

voice of the OKC business community," Dean replied. "You're an anchor employer here, and your people are the primary customers for dozens of small businesses."[5]

"I know that, Dean." Vallia's presence had helped the once-stagnating metropolis become one of the 25 largest cities in the country. "But I have to think about the long-term sustainability of my workforce," Sean continued. "It won't do anyone any good if all my staffers quit and take the 10 grand to move to Tulsa." He was referring to a cash incentive offered by the nearby city to lure remote workers to relocate there.

"I get it, but all of us at the chamber and City Hall—we're not sure OKC can take the hit if your offices stay empty." Both men were well aware of the recent *Wall Street Journal* story indicating that remote work had become a credit risk for many cities because of lower tax bases in their downtown cores. "Your community needs you to bring your people back."[6]

MORE OPINIONS

The next day, Sean gathered his senior leaders for a virtual meeting and told them he was considering continuing with work-from-anywhere for at least the next quarter. He acknowledged everyone's desire for certainty about a return-to-office plan but explained that he'd rather wait and be right than rush and be wrong. A flurry of raised-hand icons appeared on his screen.

"We're still paying off loans on our building, and paying to keep it ready," said Jake Brown, the head of accounting. "We should at least try to get more value out of it. Maybe we should keep leasing space to the medical-testing company, or rent out areas for events or conferences?"

"My priority right now is our people," Sean said. "But if there's a way to get some revenue from the empty office without turning it over to another firm, and while retaining control of when we return to work, I'm all ears."

Janet Stritikus, who led the back-office administrative roles, shared another idea: "Many people on my team have worked remotely for a long time, but we come together each quarter for training, bonding, and sharing of best practices. Why not let managers have mandatory in-office days geared toward projects that require collaboration?"

"Great thinking," Sean said. "That could be a good first step."

Bill French, the head of geoscience, spoke next: "We're trying to bolster our workforce and recruit a new generation. That requires building a new culture. But how can we do that when no one knows each other?"[7]

6. *What obligation do companies have to contribute to and protect their local communities? How should Vallia prioritize its many stakeholders?*

7. *Is there a critical mass of employees necessary to foster a corporate culture? What practices and tools can organizations use to create shared norms and values when employees are not colocated?*

"That's exactly why I'm torn," Sean replied. "We do need to make sure that something bonds us together. But new hires don't want to be forced into the office."

"Coddling them doesn't sit well with my field crews," interjected Ted Petersen, the head of the oil-field and offshore workers. "They resent the hardships they deal with while the office staff gets to work from home."

"Please remember that this isn't permanent," Sean replied. "And short-term, perhaps we can stretch the budget to add more contractors. That would allow some flexibility for our full-timers so that things feel more fair."

"Fine, but we can't exist in limbo forever," Ted said, sounding exasperated. "We may not be sure what's right, but at some point we need to make the tough decisions."

Sensing rising tension, Sean decided to end the meeting. "Joan and I will get to work and settle on the plan soon," he said. As he was signing off, he noticed that Joan had texted him a worried-face emoji. "No kidding," he replied.

MARK BOLINO *is the David L. Boren Professor and the Michael F. Price Chair in International Business at the University of Oklahoma's Price College of Business.* **COREY PHELPS** *is the dean and the Fred E. Brown Chair of Business at the University of Oklahoma's Price College of Business.*

How should Vallia proceed with plans for in-office and remote work? The experts respond.

BRACKEN DARRELL *is the CEO of Logitech.*

Sean was smart to trust his instincts and press pause on the return-to-office rollout.

To build the right culture, Vallia should still have a headquarters. But I'm not a fan of mandates. Instead of scheduling employee office days, Sean should focus on creating an environment so attractive that people will *want* to come in. Then he should let teams decide for themselves what the right mix of on- and off-site work should be.

Organizations can make their workplaces inviting by providing the best possible tools—whether hard hats or webcams—and space that is functional and comfortable. They need rooms designed for small-group conversation and collaboration, with relaxed seating, good lighting, and easy-to-access whiteboards. There should also be conference rooms to hold meetings with colleagues, partners, and customers, either in person or via technology that ensures that people not in the room feel involved and engaged. (Disclosure: My company sells videoconferencing and other office equipment.) Additionally, the design should incorporate small, enclosed spaces for people to make private calls or do heads-down work. Some of those can be reserved for the few employees who choose to come into the office every day; the rest can be booked hourly or daily through an app.

It can be tempting to look for a one-size-fits-all solution. But Sean should tread carefully. He can't take away the flexibility to which HQ employees—and new, diverse talent he wants to recruit—have become accustomed. And, to state the obvious, an organization positioning itself as a 21st-century energy company shouldn't require its employees to commute in their carbon-emitting cars every day. So balance and flexibility are key—as is clear communication.

Sean should emphasize to his entire workforce that the roughnecks' on-site labor continues to be mission-critical, generating the capital that Vallia needs to build a new future. He should explain why the OKC headquarters will remain an important gathering place—and a commercial hub in a thriving city. And he should reinforce the idea that the company's success depends on a collaborative spirit and everyone's contributions.

KATARINA BERG *is the CHRO of Spotify.*

Sean should shift Vallia Energy to a distributed-first model, permanently allowing people to work from anywhere.

Why? Because work is something you do, not a place you come to, and most chief executives, including Sean, are already leading dispersed workforces. As companies grow, they spread out over multiple rooms and then multiple floors and then multiple time zones, countries, and cultures. Vallia Energy already has employees collaborating across locations, so embracing that distribution is not as big a leap as one might think.

I understand Sean's indecision. Spotify moved to a distributed-first model in February 2021. But when our cofounder Daniel Ek started pushing the idea a few years earlier, I was uneasy and often felt myself pumping the brakes. Of course, it was the pandemic that changed my mind. Like other technology companies, we shifted to all-remote work, and employees told us that they cherished the newfound flexibility and autonomy. We didn't want to take that away from them—and we realized we didn't need to. Today most employees choose where and when they work; we ask only that they state their preference for an "office mix," in which they work mainly from the office, or a "home mix," in which the office is available to them but isn't their primary work location.

Sean's decision is more complicated, as Vallia has a class of employees who don't have the option of working from home. But I suspect that the on-site crew members will be understanding, if Sean makes it clear that the company values them as much as their HQ colleagues. Transparency and sharing the reasoning behind all decisions are key to keeping employees engaged.

Flexible work arrangements are relatively new and haven't been deeply researched. But at Spotify we see strong indications that our stance has made us more attractive to talent, particularly young employees and those from diverse backgrounds whom we might have struggled to reach before. We have not seen nor do we anticipate any drop in productivity, engagement, or retention; even during the Great Resignation, we had very few voluntary departures. If Sean wants to transform his workforce, allowing remote work is one way to do it.

Before our transition, I shared Sean and Joan's concerns that less-experienced team members would miss out on crucial mentoring, that innovation would suffer, and that resentment might grow among workers whose roles require them to come to the office. But we've found that distributed-first has a wonderful self-organizing quality about it. Most of our employees chose an office mix over a home mix so they could reap the benefits of colocation; they just didn't want to be obligated to come in all the time. We don't do hot-desking, but we don't assign desks either—instead, we designate "neighborhoods" based on function and role so that people know generally where to find the colleagues they need for collaboration.

Though we believe that our transition has been a success, we continue to seek feedback from employees, and we've partnered with academics from Stockholm University to measure long-term results. Sean will want to do something similar at Vallia, paying particular attention to sentiment among the roughnecks.

Humans are creatures of habit. The pandemic was a discontinuity that opened up a rare opportunity to do things differently. Sean, who seems to have continued to go into the office himself, is struggling to accept the new reality of work. But I can assure him that his knowledge workers, who have become habituated to increased freedoms, will never go back entirely to the way things used to be. The sooner he and his team accept this, the better.

HBR Reprint R2301M
Reprint Case only R2301X
Reprint Commentary only R2301Z

Illustration by **JASU HU**

SYNTHESIS

The Power of Everyday Awe

A series of new books suggests that life is wonderful—if you know where to look.

by Eben Harrell

IN APRIL 2020 I received a phone call informing me that a close family member had died unexpectedly. I wandered outside for some fresh air and, overcome with grief, started weeping uncontrollably. Looking up at the night sky, I imagined what I would look like from the perspective of someone thousands of light-years away: a puny figure grappling clumsily with the mysteries of existence. Far from inflaming my pain, the vision showed me a way through it. I then did something quite peculiar for me, given that I'm not religious: I took a knee. I bowed my head. Through my tears I told the universe that I did not understand its rules but that I would no longer seek to. I submitted. A line from a poem by T.S. Eliot that I had read in college popped into my head: "The rest is not our business."

I didn't know it at the time, but I was having a textbook experience of awe—a unique emotion that Dacher Keltner, a psychologist at the University of California, Berkeley, and the author of ***Awe: The New Science of Everyday Wonder and How It Can Transform Your Life,*** defines as the "feeling of being in the presence of something vast that transcends your current understanding of the world." In fact, the "overview effect"—envisioning yourself or the world from a great distance—is one of the most reliable ways to evoke awe.

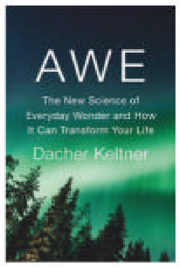
And I'm not the only one who has found comfort from it in these past few tumultuous years. Indeed, awe seems to be having a moment in the spotlight. If the pre-Covid zeitgeist was about "grit" and "growth mindset," many of us are now seeking to unclench our minds and find greater peace. And that, according to a raft of recent and upcoming books, is something awe and wonder can help with. Though many people predicted that the pandemic would end with a new Roaring Twenties of wild parties and reckless abandon, the reality has proved messier and more solemn. Humanity has a lot of loss to work through.

Keltner has written the perfect guidebook for this journey, interweaving discoveries that he and his disciples have made since he pioneered the scientific study of awe 20 years ago with highly personal—and at times excruciatingly tender—meditations on the death of his brother Rolf. Keltner explains that awe is different from fear or an appreciation of beauty—though both can be present when awe is experienced. The Manhattan Project scientists felt awe at the Trinity test of the first nuclear bomb, but so did the late YouTube sensation Paul “Bear” Vasquez when he became exalted at the sight of a double rainbow outside his California mountain home.

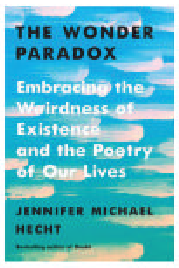
To find awe, Keltner says, we must look for “eight wonders of life.” The most common are nature, music, visual design, and moral beauty (when we witness people helping other people). Less common but often more profound are “collective effervescence” (what fans madly cheering together in a soccer stadium feel), spiritual experiences, epiphanies (when we learn something unexpected that changes our worldview), and, of course, births and deaths, life’s beginnings and endings.

Experiencing awe produces a multitude of positive effects. It makes us calmer, kinder, more creative, and less likely to cheat. It reins in the ego and makes us feel more connected to the earth and to other creatures. (Indeed, the goose bumps we get when awestruck might be an evolutionary signal to huddle together for warmth.) In one experiment conducted by Keltner, visitors to a scenic overlook at Yosemite National Park who were asked to draw artistic doodles consistently made themselves smaller in their pictures than visitors in downtown San Francisco did, suggesting a diminished sense of self-importance. In another experiment, study volunteers told to gaze at enormous eucalyptus trees asked to be paid less for their participation than those told to stare at an academic building—and were more willing to help pick up pens dropped by a study organizer in a feigned spill. But the most ringing endorsement of awe’s salutary effects is Keltner’s recounting of how he harnessed it to process his own grief—from the raw emotion he felt witnessing Rolf’s final breath to the comfort he took months later looking at a stolid yet ever-changing Alpine massif and sensing his brother’s continued presence. “There are still wonders and mysteries,” Keltner writes. “And…he is still part of them.”

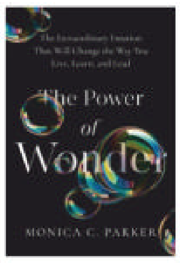
Though one can deduce how to experience awe from Keltner’s book, some other resources are more prescriptive. In ***The Wonder Paradox: Embracing the Weirdness of Existence and the Poetry of Our Lives,*** the poet and historian Jennifer Michael Hecht selects poems appropriate for awe-inspiring life events, from weddings to births. In the fascinating, far-ranging book ***The Power of Wonder: The Extraordinary Emotion That Will Change the Way You Live, Learn, and Lead,*** the life and career coach Monica C. Parker recommends “wonder walks” that draw on the nature writer Rachel Carson’s advice to open your eyes to “unnoticed beauty” and ask, “What if I had never seen this before? What if I knew I would never see it again?”


AWE
The New Science of Everyday Wonder and How It Can Transform Your Life
Dacher Keltner

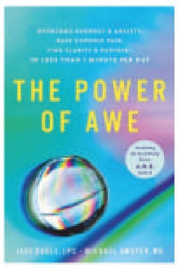
Awe
Dacher Keltner
Penguin, 2023


THE WONDER PARADOX
Embracing the Weirdness of Existence and the Poetry of Our Lives
JENNIFER MICHAEL HECHT

The Wonder Paradox
Jennifer Michael Hecht
Farrar, Straus and Giroux, 2023



The Power of Wonder
Monica C. Parker
TarcherPerigee, 2023



The Power of Awe
Jake Eagle and Michael Amster
Hachette Go, 2023

In ***The Power of Awe: Overcome Burnout and Anxiety, Ease Chronic Pain, Find Clarity and Purpose—in Less Than 1 Minute Per Day,*** the coach and mentor Jake Eagle and Michael Amster, a physician, draw on Keltner’s work to introduce a technique, similar to Carson’s, for “microdosing” on awe. For those looking for an even quicker fix, scientists at Google and Berkeley have created the Art Emotions Map website, featuring pictures of famous artworks that elicit certain feelings, including awe (example: *Vesuvius in Eruption,* by Joseph Mallord William Turner). At Mapping Emotion, a site created by a different former Berkeley researcher, Alan Cowen, you can watch GIFs proven to evoke the same response (such as one of skydivers falling in unison).

For most of us, encounters with awe are rare—but they don’t need to be. As Keltner, the other authors, and Carson persuasively argue, we can break up the humdrum of daily life simply by adopting fresh eyes that allow us to discover awe in everyday things—what the playwright Christopher Marlowe described as “infinite riches in a little room.” With that perspective, we can find awe not just in the stars but in the stardust that constitutes everything—even the most mundane objects—on Earth. As the science writer Carl Sagan once quipped, “If you wish to make an apple pie from scratch, you must first invent the universe.” Isn’t that an awesome thought?

HBR Reprint R2301N

EBEN HARRELL *is a senior editor at HBR.*

Executive Summaries
January–February 2023

SPOTLIGHT

How Financial Accounting Screws Up HR 38

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Spotlight

What Companies Get Wrong About Talent Management

Illustration by KEMAL SANLI

Harvard Business Review January–February 2023 37

What Companies Get Wrong About Talent Management

The all-too-common mistakes businesses make with recruiting, hiring, benefits, and job design—and how to avoid them | **page 37**

Each article in this Spotlight is available as a single reprint. The complete Spotlight is also available as a package.

HBR Reprint R2301B

Peter Cappelli

Spotlight

How Financial Accounting Screws Up HR It distorts hiring, training, and benefits practices.

Employees Aren't Treated as Assets

38 39

How Financial Accounting Screws Up HR

Peter Cappelli | page 38

Many HR practices in the United States are bad for companies, employees, and shareholders. Firms skimp on training and development, for instance, and tightly limit head count even when they're understaffed. They increasingly move work to nonemployees, like leased workers, and replace pensions with more-expensive 401(k) plans. They do such counterproductive things because U.S. financial reporting standards treat employees and investments in them as expenses or liabilities, which make companies look less valuable to investors. This situation can be remedied, however, with some modest additions to reporting requirements. Though small, these changes could have a big positive impact.

HBR Reprint S23011

Mark Mortensen

Amy C. Edmondson

Spotlight

Rethink Your Employee Value Proposition Offer your people more than just flexibility.

45

Rethink Your Employee Value Proposition

Mark Mortensen and Amy C. Edmondson | page 45

A lot of leaders believe that the formula for attracting and keeping talent is simple: Just ask people what they want and give it to them. The problem is, that approach tends to address only the material aspects of jobs that are top of employees' minds at the moment, like pay or flexibility. And those offerings are easy for rivals to imitate and have the least enduring impact on retention. Companies instead should focus on what workers need to thrive over the long term, balancing material offerings with opportunities to grow, connection and community, and meaning and purpose.

HBR Reprint S23012

Roger L. Martin

Spotlight

Designing Jobs Right Make them challenging—but don't overdo it.

Why Do People Redefine Their Jobs?

To the Boss: Tailor the Task to the Person

50 51

Designing Jobs Right

Roger L. Martin | page 50

It's a given of human nature that whenever people get an assignment that they can't or don't want to do, they'll make up a different one and do that instead. If a job is unchallenging, they'll redefine it to be more interesting, and if it's not doable, they'll turn it into something that they can accomplish. Sometimes that works out, but mostly it doesn't, because the job doesn't fulfill its intended function.

Managers will be far more effective if they take time to sit down regularly with employees and explore what their job preferences are and how their tasks can be both achievable and engaging. But it's a two-way street: Subordinates must also help design the tasks their bosses will do. If those responsibilities aren't interesting or value-adding, the bosses will make up their own tasks—with results the subordinates may not like.

HBR Reprint S23013

HOW WE DID IT

Marico's Chairman on Innovating Across Every Part of the Business

Harsh Mariwala | page 30

When the author launched what would become Marico as a division within his family's business, Bombay Oil, it was with product innovation: Instead of selling edible oils in bulk to other businesses, it would sell in smaller, branded packages directly to consumers. Eventually the division became a separate entity, which is now one of India's largest homegrown CPG companies. Its growth has depended on constant innovation—around not just products, packaging, and pricing but also supply chain, talent management, and business models. Over the past decade Marico has branched out into services with its Kaya skin-care spas, pioneered the use of premium hair oils, and added savory oats to Indian diets. Through the Marico Innovation Foundation, Mariwala also promotes innovative thinking outside the company, supporting small businesses and entrepreneurs in their efforts to scale up new ideas. The key to doing that well, he says, is to be ever curious about customer needs, to create a flat hierarchy that rewards risk-taking, to learn from every failure, and to constantly prototype, experiment, refine, and retest.

HBR Reprint R2301A

MANAGING YOURSELF

Cultivating the Four Kinds of Creativity

Gabriella Rosen Kellerman and Martin E.P. Seligman
page 139

In the decades to come, creativity will be key to doing most jobs well. In this article the authors offer a new typology that breaks creative thinking into four types: *integration,* or showing that two things that appear different are the same; *splitting,* or seeing how things that look the same are more usefully divided into parts; *figure-ground reversal,* or realizing that what is crucial is not in the foreground but in the background; and *distal thinking,* which involves imagining things that are very different from the here and now. Most of us tend to think in just one of those four ways. But we can hone our ability to be creative in other dimensions. Managers need to understand both their own strengths and how to balance the types of thinking across their teams to successfully execute creative projects. And organizations can use this typology to optimize innovation across the workforce.

HBR Reprint R2301L

SMARTER THAN THE AVERAGE GUIDE
HBR Guide to
Leading Teams
Balance skills and styles
Establish clear roles
Promote healthy dissent
By Mary Shapiro
Harvard Business Review Press

PRODUCT #10022E

Behind Every Great Team Is a Great Leader

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Features

ENTREPRENEURSHIP

The Overlooked Key to a Successful Scale-Up

It's mastering the "extrapolation" stage, when start-ups begin to focus on profitability, not just growth.

The Overlooked Key to a Successful Scale-Up

Jeffrey F. Rayport, Davide Sola, and Martin Kupp | page 56

Many start-ups experience enormous popularity and runaway growth, but only a few go on to become stable giants. What separates them from the pack? They all go through a developmental stage called *extrapolation,* say three business school professors.

This stage isn't part of traditional organizational theory, which holds that businesses begin in exploration mode (testing out hypotheses about how they'll solve problems and learning whether people will pay for their solutions) and then move into exploitation mode (as growth slows and they fine-tune their business models to sharpen their advantage). But between those two well-known stages is the crucial extrapolation stage. During it, a company both explores and exploits. And most significantly, it works to ensure that each new customer brings in additional revenue while incurring only marginal cost—the secret to lasting, profitable growth.

A new enterprise needs multiple strengths to navigate this phase—such as a proven monetization approach, a strong go-to-market strategy, network and density effects, and capital. It also must systematically identify and remove internal business-model constraints on growth that could prevent it from achieving scale.

HBR Reprint R2301C

PRICING STRATEGY

Expand Your Pricing Paradigm

Look to other industries for inspiration.

Expand Your Pricing Paradigm

Rafi Mohammed | page 66

With inflation high, a global recession possible, and consumers spending carefully, many companies are concerned about preserving profit margins. In this article, pricing consultant Rafi Mohammed argues that instead of simply adjusting prices, firms should consider adding new ways to charge customers. He outlines 18 different pricing tactics that can be used for various purposes: to accommodate buyers with different usage needs, to appeal to people on a tight budget, to spur purchases by customers who love a good deal, to achieve favorable prices when the value of an offering is uncertain, and to increase business efficiency.

Mohammed urges companies to think creatively about whether a pricing convention commonly used in other industries might work for their own product or service. For example, Allstate has borrowed the metering model and introduced auto insurance premiums based on actual miles driven. Mammoth Holdings, which owns more than 100 car washes, offers monthly subscriptions for unlimited washes. Some hotels sell day passes to their pools and fitness facilities. By creating a mix of pricing options, companies are likely to please existing customers and attract new ones.

HBR Reprint R2301D

HEALTH & WELLNESS

Employers Can Do More to Advance Health Equity // They can optimize benefits, address social issues, and expand access to care.

Employers Can Do More to Advance Health Equity

Shantanu Nundy, MD; Lisa A. Cooper, MD; and Ellen Kelsay page 76

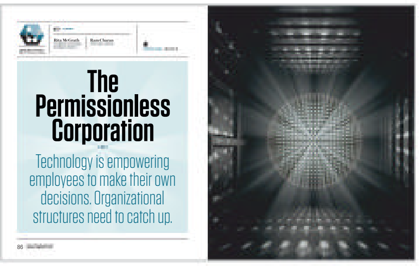
Covid-19 exposed wide inequities in health in the United States and around the world. But health disparities persisted long before the pandemic.

In this article the authors explain why businesses should help find solutions to health inequities and showcase companies innovating in this space. The article outlines four opportunities for companies. They can optimize benefits and health plan offerings, address social determinants of health, expand primary care and mental health access through virtual care and community partnerships, and make benefits and health care easy to navigate.

To improve health equity among their employees and communities, businesses will need to invest in a multiyear effort and equip themselves with the right leadership, resources, and processes. Key steps for getting started include building a business case for investments, collecting data to understand specific problems, identifying an initial population to focus on, engaging a broad group of stakeholders to design solutions, and measuring progress.

HBR Reprint R2301E

ORGANIZATIONAL DECISION-MAKING



The Permissionless Corporation

Technology is empowering employees to make their own decisions. Organizational structures need to catch up.

The Permissionless Corporation

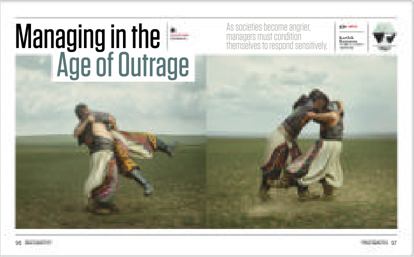
Rita McGrath and Ram Charan page 86

Digital technologies are pushing decision-making ability to the edges of the organization, allowing businesses to adopt structures that are flatter and more reconfigurable than those they have traditionally used. When AI and other software make information transparent to all authorized decision-makers on the front lines, directly and without managerial filters, it unleashes their creative and collaborative potential instead of trapping them in endless reporting and coordination loops. It can help to create, in other words, a "permissionless corporation."

The authors contend that companies with three or four layers, faster problem-solving, and a permissionless mindset will outcompete traditional players. But making the transformation to such a structure will require companies to completely rethink how people work; it's not enough to streamline a process here or there or take out one layer of traditional structure. Using real-world examples, the authors detail how companies need to pay painstaking attention to performance metrics, ensure that information gets to the front line, communicate the context in which decisions are made, and leverage multifunctional teams.

HBR Reprint R2301F

BUSINESS & SOCIETY


Managing in the Age of Outrage

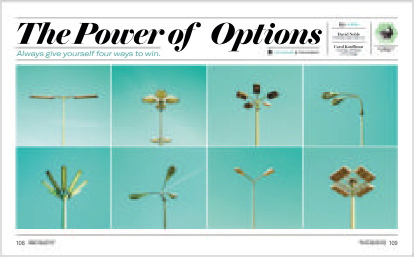
Managing in the Age of Outrage

Karthik Ramanna | page 96

Almost every leader in every sector is now dealing with angry stakeholders. Even a revered company like Apple can find itself suddenly managing outrage flashpoints, both with employees and with external groups. Such encounters are nothing new; what sets this time apart is a perfect storm of three forces: (1) Many people feel unhopeful about the future. (2) Many feel, rightly or wrongly, that the game has been rigged against them. (3) Many are being drawn toward ideologies that legitimize an us-versus-them approach. The author offers a five-step framework for dealing with outrage that draws on analytical insights from disciplines as wide-ranging as the science of aggression, managerial economics, organizational behavior, and political philosophy. It forms the basis of a course he teaches at Oxford and has been built inductively through a series of deep-dive case studies on a variety of organizations, including IKEA, the London Metropolitan Police, Nestlé, and Oxford University Hospitals.

HBR Reprint R2301G

LEADERSHIP STYLES


The Power of Options

Always give yourself four ways to win.

The Power of Options

David Noble and Carol Kauffman | page 108

Facing a crisis or an opportunity, leaders often fall back on the leadership style that has worked for them in the past. But to be effective, they need to rise above their default reactions and generate more options for how to respond in real time.

In this article two leadership coaches offer an approach, called the "four stances," to help leaders improve their interpersonal communication:

Lean In. Take an active stance on resolving an issue. Actions in this stance include deciding, directing, guiding, challenging, and confronting.

Lean Back. Take an analytical stance to observe, collect, and understand data. Actions include analyzing, asking questions, and possibly delaying decisions.

Lean With. Take a collaborative stance, focusing on caring and connecting. Actions include empathizing, encouraging, and coaching.

Don't Lean. Be still and create space for a new solution to bubble up from the subconscious. This stance also serves to calm emotions if they have been triggered. Actions include contemplating, visualizing, and breathing.

Leaders should identify which stance is their default, make a plan for using alternative ones in various situations, and be ready to pivot if an approach is not working.

HBR Reprint R2301H

AI & MACHINE LEARNING

STOP TINKERING WITH AI

It's time to go all in.

Stop Tinkering with AI

Thomas H. Davenport and Nitin Mittal | page 116

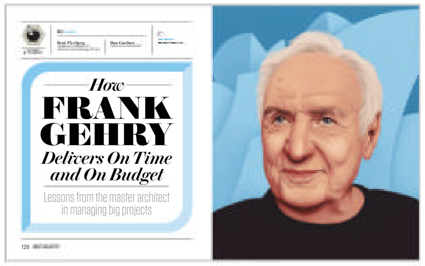
AI initiatives at many organizations are too small and too tentative. They never get to the only step that can add economic value—being deployed on a large scale. Testing the waters may deliver valuable insights, but it probably won't be enough to achieve true transformation. A pilot program or experiment can take you only so far.

The authors have identified 30 companies that have gone all in on AI—and achieved success—as well as 10 actions those companies took to become successful AI adopters: (1) Know what you want to accomplish. (2) Work with an ecosystem of partners. (3) Master analytics. (4) Create a modular, flexible IT architecture. (5) Integrate AI into existing workflows. (6) Build solutions across the organization. (7) Create an AI governance and leadership structure. (8) Develop and staff centers of excellence. (9) Invest continually. (10) Always seek new sources of data.

In other words, you need to be aggressive enough with AI that the technology eventually transforms every aspect of your business.

HBR Reprint R2301J

PROJECT MANAGEMENT


How FRANK GEHRY Delivers On Time and On Budget

Lessons from the master architect in managing big projects

How Frank Gehry Delivers On Time and On Budget

Bent Flyvbjerg and Dan Gardner | page 128

A study of some 16,000 major projects—from large buildings to bridges, dams, power stations, rockets, railroads, information technology systems, and even the Olympic Games—reveals a massive project-management problem.

Only 8.5% of those projects were delivered on time and on budget, while a mere 0.5% were completed on time and on budget *and* produced the expected benefits. In other words, 99.5% of large projects failed to deliver as promised.

Master architect Frank Gehry consistently defies those odds, producing projects of staggering beauty while meeting time and budget targets. This article reveals four lessons, gleaned from interviews with Gehry and his colleagues, for successfully managing big projects.

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Life’s Work

> “My dad taught me about putting yourself into the character on a personal, emotional level. To this day I’ve got a hypersensitive empathetic pathway.”

JACOBS FILM CENTER

Ron Howard

First he won hearts as a child and teen actor playing the beloved TV characters Opie Taylor and Richie Cunningham. Then he started directing popular (and critically acclaimed) movies, from Splash *and* Cocoon *to* Apollo 13 *and* A Beautiful Mind. *Howard has produced more than 120 films and shows, often in partnership with his Imagine Entertainment cofounder, Brian Grazer, and has directed 45, working with both top talent and up-and-comers. His latest directorial effort,* Thirteen Lives, *is streaming on Amazon now.* **Interview by Alison Beard**

HBR: Many child actors go off the rails. Why didn’t you?

HOWARD: A lot of it had to do with my parents. They were strict—not harsh, but helicoptering before that was a thing. I also really enjoyed the camaraderie and the energy on set. I could see the grown-ups hustling to get things right. There was a lot of laughter but also a lot of hard work and care. So I did not have that adolescent confusion. I wanted to continue acting. And by the time I was 15, I knew I wanted to be a director.

How did you transition?

I went to film school, but that was interrupted by being cast in *Happy Days,* which was a good-money job. I took it thinking, *Most series don’t go.* But it just kept going. So I began making short films on the weekends. That led me to an opportunity with Roger Corman, who let me act in and direct *Grand Theft Auto.*

And then came big hits: *Night Shift, Splash*...

They were Brian’s ideas. There was something about us—Baby Boomers, me in my late twenties, him 30, different guys but with similar creative sensibilities—that clicked. The business was at a tipping point generationally; people were asking, “Who’s gonna tell us what this new audience wants?” And we had just enough credits, experience, and chutzpah to push ourselves to the front of the line. Then I did *Cocoon,* which was nominated for Oscars and, like *Splash,* a top-10-grossing movie without known stars. People thought I knew something, and I had to pretend I agreed with them.

Did you feel pressure to match that success every time?

A bit. But I remembered that I come out of television, where everyone gives their best to each show, but they don’t all work, and that’s OK. Maybe a third of them are special. So I’m not going to put pressure on myself beyond giving each movie everything I have.

How do you find great talents and get the best out of them?

Early on, I directed Bette Davis. She was in her seventies but still an Oscar-winning diva, and she wasn’t crazy about me directing. I earned her respect by leaning in—not avoiding her but also not trying to dominate. I used the logic of creative problem-solving that I’d witnessed as a kid: rolling up your sleeves and saying, “This isn’t quite working. How might it work? What should we do? What do you think?” By the end she was very complimentary of me. I have a principle I call the six-of-one rule. If I’m working with somebody—an actor, writer, cinematographer, editor, composer, production person—who wants to approach a scene not the way I visualized it, I hear that person out. Then I ask myself, “What do I need for the scene? Does this conflict with that?” If it achieves everything my idea would have or more, I say yes. But even if it’s six of one, half a dozen of the other, I go that artist’s way, because you get an organic X factor in the execution when they’re not responding to the director but expressing themselves. I have that final call, and I use it a lot, but it’s easier to say no when people recognize that you’re also eager to say yes.

HBR Reprint R2301P

Maarten de Boer/Contour by Getty Images

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CSC:Miami

Content Supply Chains must be forensic in their detail.

Television broadcasters have long relied on instinct, market knowledge and spreadsheets to forecast TV viewership - but instinct needs to partner with information; market knowledge is never enough; and spreadsheets are no way to excel.

As witness to these challenges, Fractal undertook its own detective work.

By combining AI, data engineering and user-centric design, Fractal created an industry-first TV forecasting system for Europe's leading media and entertainment company. The result? Up to 30% improvement in forecast accuracy.

Fractal: perfectly targeted and timed TV, no drama.

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